

0-355A045

\$ 15.00

OBER, KALER, GRIMES & SHRIVER

ATTORNEYS AT LAW

120 EAST BALTIMORE STREET

BALTIMORE, MARYLAND 21202-1643

(301) 685-1120

FACSIMILE (301) 547-0699

CABLE "RITNEY"

TELEX 8-7774

PATRICK K CAMERON

DIRECT DIAL NUMBER

(301) 347-7340

OFFICES IN  
WASHINGTON, D C  
NEW YORK  
NEW JERSEY

December 21, 1990

HAND DELIVERED

Mr. Sidney L. Strickland  
Secretary  
Interstate Commerce Commission  
12th & Constitution Avenue, N.W.  
Washington, D.C. 20423

17142  
RECORDATION NO. 17142  
DEC 21 1990 - 3 05 PM  
INTERSTATE COMMERCE COMMISSION  
DEC 21 2 55 PM '90  
MOTOR OPERATING UNIT

Dear Mr. Strickland:

Enclosed for recordation pursuant to the provision of 49 U.S.C. §11303(a) are two (2) copies of the Term Loan and Security Agreement dated as of December 20, 1990, a primary document as defined in the Commission's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed Loan Agreement are:

Lender: The First National Bank of Maryland  
Transportation Division  
25 S. Charles Street  
Baltimore, Maryland 21201

Borrower: Octoraro Railway, Inc.  
505 South Broad Street  
Kennett Square, Pennsylvania 19348

A description of the railroad equipment covered by the enclosed document is set forth in Schedule 1 attached hereto and made a part hereof.

Also enclosed is our check in the amount of \$15.00 payable to the order of the Interstate Commerce Commission covering the required recordation fee.

Kindly return a filed-stamped copy of the enclosed document to Patrick K. Cameron, Esq., Ober, Kaler, Grimes & Shriver, 120 E. Baltimore Street, Baltimore, Maryland 21202-1643.

*Delbert M. Hugen*

*Patrick K. Cameron*

Mr. Sidney L. Strickland  
December 21, 1990  
Page 2

A short summary of the enclosed primary document to appear in the Commission's Index is:

Term Loan and Security Agreement dated as of December 20, 1990, by and between The First National Bank of Maryland, Secured Party, and Octoraro Railway, Inc., Debtor, covering two (2) EMD GP-7 diesel locomotives, bearing road nos. 341 (Ex-ATSF 2202) and 346 (Ex-ATSF 2150).

Very truly yours,



Patrick K. Cameron

PKC/pml  
Enclosures

RECORDATION NO 17142 FILED 1425

DEC 21 1990 -3 05 PM

INTERSTATE COMMERCE COMMISSION

---

TERM LOAN AND SECURITY AGREEMENT

between

THE FIRST NATIONAL BANK OF MARYLAND

and

OCTORARO RAILWAY, INC.

Dated as of December 20, 1990

---

Covering Two (2) EMD GP 7 Diesel Locomotives Owned  
by Octoraro Railway, Inc.

---

Filed and recorded with the Interstate Commerce Commission  
pursuant to the Interstate Commerce Act, 49 U.S.C. §11303 on  
December \_\_, 1990, at \_\_\_\_\_.m., recordation no \_\_\_\_.

## TABLE OF CONTENTS\*

<u>Section</u>	<u>Page</u>
Parties .....	1
Recitals .....	1
 Article 1. BORROWINGS	
1.01 The Term Loan.....	1
1.02 Use of Proceeds.....	2
1.03 Prepayment.....	2
 Article 2. CONDITIONS PRECEDENT.....	2
2.01 Conditions Precedent to the Bank's Making of the Term Loan.....	2
 Article 3. CERTAIN REPRESENTATIONS AND WARRANTIES OF THE BORROWER.....	4
3.01 Organization: Power; Qualification; Subsidiaries.....	4
3.02 Authorization of and Compliance with Agreement, Other Loan Documents and Borrowing.....	4
3.03 Litigation.....	5
3.04 Burdensome Provisions.....	5
3.05 No Adverse Change.....	5
3.06 No Adverse Fact.....	5
3.07 Assets.....	5
3.08 Regulatory Approvals.....	6
3.09 Subsidiaries.....	6
3.10 Status.....	6
 ARTICLE 4. COVENANTS.....	6
4.01 Preservation of Existence and Properties, Scope of Business, Compliance with Law, Payment of Taxes and Claims.....	6
4.02 Accounting Methods and Financial Records.....	6
4.03 Liability and Casualty Insurance.....	6
4.04 Visits and Inspections.....	7

---

\*This Table of Contents has been included in this document for convenience only and does not form a part of, or affect any construction or interpretation of, this Agreement.

<u>Section</u>	<u>Page</u>
4.05 Use of Proceeds.....	7
4.06 Environmental Laws.....	8
4.07 Plans.....	8
4.08 Maintenance.....	8
4.09 Compliance with AAR Regulations.....	8
4.10 Compliance with Laws Generally.....	8
4.11 Use of Locomotives.....	8
4.12 Required Modifications.....	9
4.13 Notice of Casualty.....	9
4.14 Guaranties.....	9
4.15 Liens.....	9
4.16 Indebtedness.....	9
4.17 Merger, Consolidation and Sale of Assets.....	9
4.18 Transactions with Affiliates.....	9
4.29 Subsidiaries.....	10
4.20 Investments.....	10
4.21 Capital Expenditures.....	10
 Article 5. INFORMATION.....	 10
5.01 Monthly Financial Statements.....	10
5.02 Quarterly Financial Statements.....	10
5.03 Year-End Statements; No Default Certificate.....	11
5.04 Officer's Certificate.....	11
5.05 Additional Materials.....	11
5.06 Notice of Defaults, Litigation and Other Matters.....	12
5.07 Accuracy of Pro Form Information.....	12
 Article 6. DEFAULT.....	 13
6.01 Events of Default.....	13
6.02 Remedies upon An Event of Default.....	15
6.03 Waiver by Borrower.....	17
6.04 Right to Purchase Collateral.....	17
6.05 Cumulative Rights.....	17
 Article 7. SECURITY.....	 18
7.01 Grant of Security.....	18
7.02 The Bank as Agent.....	19
7.03 Perfecting Interest in Security.....	19
7.04 After-Acquired Property.....	20
7.05 Usage.....	20
7.06 Marking of Locomotives.....	20
7.07 Registration of Locomotives.....	21
7.08 Protection of Security.....	21
7.09 Indemnity for Acts and Omissions of the Borrower.....	21

<u>Section</u>	<u>Page</u>
7.10 Taxes.....	21
7.11 Disclaimer by the Bank.....	22
7.12 Casualty; Insurance Proceeds.....	22
 Article 8. MISCELLANEOUS.....	 23
8.01 Notices.....	23
8.02 Expenses.....	25
8.03 Rights Cumulative.....	25
8.04 Disclosures.....	25
8.05 Waivers; Amendments.....	26
8.06 Set-Off.....	26
8.07 Assignment.....	26
8.08 Participations.....	26
8.09 Governing Law.....	27
8.10 Judicial Proceedings; Service of Process; Waiver of Jury Trial.....	27
8.11 Taxes.....	27
8.12 Severability of Provisions.....	28
8.13 Counterparts.....	28
8.14 Entire Agreement.....	28
 Article 9. ADDITIONAL LOAN PROVISIONS.....	 28
9.01 Regulatory Changes.....	28
9.02 Determinations.....	29
 Article 10. INTERPRETATION.....	 29
10.01 Interpretation.....	29
10.02 Accounting Matters.....	36
10.03 Representations and Warranties.....	36

SCHEDULES AND EXHIBITS

Schedule 1	Description of Locomotives
Schedule 2.01(a)	Certificate as to Resolutions, etc. and Consent of Shareholders
Annex A	Resolutions of Board of Directors
Annex B	Borrower's By-Laws
Schedule 2.01(f)	Opinion of Borrower's Counsel
Schedule 2.01(p)	Opinion of Guarantor's Counsel
Schedule 3.02	Required Consents and Governmental Approval
Schedule 3.03	Litigation
Schedule 4.16	Indebtedness
Schedule 5.01	Certificate as to Financial Statements
Schedule 5.04	Certificate as to Compliance with Financial Covenants, Defaults
Exhibit A	Form of Term Note
Exhibit B	Form of Guaranty

## TERM LOAN AND SECURITY AGREEMENT

This TERM LOAN AND SECURITY AGREEMENT (the "Agreement") is made as of the 20 day of December, 1990, by and between THE FIRST NATIONAL BANK OF MARYLAND, a national banking association (the "Bank") and OCTORARO RAILWAY, INC., a Pennsylvania corporation (the "Borrower") (with certain terms used herein being defined in Article 10):

### RECITALS

A. The Borrower has applied to the Bank for a loan in the original principal amount of \$106,666, to be used by the Borrower to acquire two (2) EMD GP 7 diesel locomotives from The Wabash & Ohio Equipment Partnership, L.P.

B. The Bank is willing to make the loan to the Borrower subject and pursuant to the terms and conditions of this Agreement.

C. The Borrower's obligations to the Bank shall be secured by, among other things, a continuing, first priority security interest in and chattel mortgage lien on the two (2) locomotives purchased with the proceeds of said loan and shall be guaranteed by Eric D. Gerst, the president and major stockholder of the Borrower.

### AGREEMENTS

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

### ARTICLE 1

#### BORROWINGS

Section 1.01. The Term Loan. Subject to the fulfillment of the terms and conditions specified herein, the Bank agrees to lend to the Borrower and the Borrower agrees to borrow from the Bank the principal sum of \$106,666 (the "Term Loan"). The obligation of the Borrower to repay the Term Loan shall be evidenced by Borrower's promissory note dated as of the date hereof and be in substantially the form attached hereto as Exhibit A (the "Term Note"). The Term Note shall bear interest and be payable in the manner and at the times set forth in the Term Note.



Section 1.02. Use of Proceeds. The proceeds of the Term Loan shall be used by the Borrower for the purposes set forth in Recital A above, and, unless the prior written consent of the Bank is obtained, for no other purpose.

Section 1.03. Prepayment. The Borrower may prepay the Term Note in whole on any principal installment payment date after giving the Bank thirty (30) days prior written notice of its intention to make such prepayment and by paying, in addition to such prepayment amount, all accrued but unpaid interest and all other sums then due under the Term Note, plus a prepayment premium (the "Prepayment Premium"). The Prepayment Premium shall be computed by multiplying the following specified percentage by the outstanding principal balance due under the Term Note:

<u>Prepayment Date by Months</u>	<u>Percentage</u>
1-12	3%
13-24	2%
25-36	1%
37-48	0%

## ARTICLE 2

### CONDITIONS PRECEDENT

Section 2.01. Conditions Precedent to the Bank's Making the Term Loan. The obligation of the Bank to make the Term Loan shall be conditioned upon the Bank's receipt of each of the following, in form and substance, and in the case of (a), (b), (c), (h), (m) and (n) certified in a manner, satisfactory to the Bank:

(a) a certificate of the Secretary or an Assistant Secretary of the Borrower substantially in the form of Schedule 2.01(a) with respect to the officers of the Borrower authorized to execute and deliver this Agreement and the other Loan Documents, to which shall be attached copies of the resolutions and by-laws referred to in such certificate;

(b) a copy of the Articles of Incorporation of the Borrower, certified by the Secretary of the Commonwealth of Pennsylvania;

(c) a good standing certificate with respect to the Borrower, issued as of a recent date by the Secretary of the Commonwealth of Pennsylvania;

(d) an executed counterpart of this Agreement;

(e) the original Term Note in the principal amount of \$106,666, duly executed by the Borrower;

(f) a signed opinion of counsel to the Borrower dated the date hereof, substantially in the form of Schedule 2.01(f);

(g) copies of appropriate financing statements on Form UCC-1, duly executed by the Borrower and duly filed in such office or offices as may be necessary or, in the opinion of the Bank, desirable to perfect the security interests granted hereunder;

(h) copies of the bills of sale and other evidence of title, conveying to the Borrower good and marketable title to the 2 EMD GP 7 diesel locomotives purchased from The Wabash & Ohio Equipment Partnership, L.P., all as more fully described on Schedule 1 attached hereto (the "Locomotives");

(i) the original Full Termination and Release, duly executed on behalf of Ameritrust National Bank, Central Indiana, releasing its interests in the Locomotives;

(j) to the extent applicable, the original termination statements on Form UCC-3, duly executed by Ameritrust National Bank, Central Indiana, and duly filed in such office or offices as may be necessary or, in the opinion of the Bank, desirable to terminate Ameritrust National Bank, Central Indiana's liens on and security interests in the Locomotives;

(k) evidence of the filing of this Agreement with the ICC pursuant to 49 U.S.C. §11303 and in accordance with 49 CFR Part 1177, together with a search request or an opinion of counsel indicating that the Bank's security interest in the Locomotives is a valid, duly perfected, first priority security interest;

(l) copies of lien search reports and tax lien and judgment search reports relating to liens and judgments filed against the Borrower in such jurisdictions as the Bank may request;

(m) copies of all insurance policies and endorsements thereto of the Borrower (or insurance certificates or binders therefor) covering the Locomotives, showing that the Borrower has adequate liability, casualty and hazard insurance coverage, including casualty insurance coverage in an amount at least equal to the greater of the fair market value of the Locomotives and \$150,000, and (2) loss payable endorsements satisfactory to the Bank and in favor of the Bank with respect to all casualty insurance;

(n) current financial statements and/or other information as required by the Bank concerning the financial condition of the Borrower or the Guarantor (as hereinafter defined);

(o) an executed counterpart of the Guaranty, duly executed by Eric D. Gerst (the "Guarantor");

(p) a signed opinion of counsel for the Guarantor dated the date hereof, substantially in the form of Schedule 2.01(p); and

(q) all legal matters, including, without limitation, all documentation, incident to the transactions contemplated by this Agreement shall be reasonably satisfactory to the Bank and its counsel.

### ARTICLE 3

#### CERTAIN REPRESENTATIONS AND WARRANTIES OF THE BORROWER

In order to induce the Bank to enter into this Agreement and to make the loan contemplated hereunder, the Borrower hereby represents and warrants as follows:

Section 3.01. Organization; Power; Qualification; Subsidiaries. The Borrower is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania; has the full power and authority to own its properties and to carry on its business as now being and hereafter proposed to be conducted; and is duly qualified and is in good standing as a foreign corporation, and authorized to do business, in all jurisdictions in which the character of its properties or the nature of its businesses requires such qualification or authorization, except for qualifications and authorizations the lack of which, singly or in the aggregate, have not had and will not have a Materially Adverse Effect upon the Borrower.

Section 3.02. Authorization of and Compliance with Agreement, Other Loan Documents and Borrowing. The Borrower has the full power, and has taken all necessary corporate (including stockholder, if necessary) action to authorize it to execute, deliver and perform this Agreement and the other Loan Documents in accordance with their respective terms and to borrow all sums contemplated hereunder. This Agreement and the other Loan Documents have been duly executed and constitute legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with the terms thereof. The execution, delivery and performance of this Agreement and the other Loan Documents in accordance with their respective terms, and the borrowing hereunder, do not and will not (i) require (a) any consent or approval of the stockholders or holders of any indebtedness of the Borrower or (b) any Governmental Approval that has not been obtained and is not listed on, and a copy (certified in the case of Governmental Approvals) of which is not attached to, Schedule 3.02; (ii) violate or conflict with, result in a breach of, or constitute a default under, (a) any Contract to which the Borrower is a party or by which the Borrower or its properties may be bound or affected, or (b) any Applicable Law,

or (iii) result in or require the creation of any Lien upon any assets of the Borrower other than Permitted Liens.

Section 3.03. Litigation. Except as set forth in Schedule 3.03, there are not, in any court or before any arbitrator of any kind or before or by any governmental or non-governmental body, any actions, suits or proceedings pending, or, to the knowledge of the Borrower, threatened (nor, to the knowledge of the Borrower, is there any basis therefor probable of assertion) against or in any other way relating to or affecting (i) the Borrower or the business or any property of the Borrower, or (ii) this Agreement or any of the other Loan Documents.

Section 3.04. Burdensome Provisions. To the best of the Borrower's knowledge and belief, the Borrower is not a party to or bound by any Contract or Applicable Law that could have a Materially Adverse Effect on the Borrower or its ability to perform its obligations hereunder.

Section 3.05. No Adverse Change. Since the date of incorporation of the Borrower, no material adverse change in the business, assets, liabilities, financial condition, results of operations or business prospects of the Borrower has occurred, and no event has occurred or failed to occur, which has had or may have, either alone or in conjunction with any other such event or failure, a Materially Adverse Effect on the Borrower or its ability to perform its obligations hereunder or on this Agreement or on the other Loan Documents.

Section 3.06. No Adverse Fact. No fact or circumstance is known to the Borrower, which, either alone or in conjunction with all other such facts and circumstances, has had or might in the future have (so far as the Borrower can reasonably foresee) a Materially Adverse Effect upon the Borrower or its ability to perform its obligations hereunder or on this Agreement or on the other Loan Documents. If the Borrower discloses a fact or circumstance in any of its financial statements, a Disclosure Statement or in any of the Schedules hereto which did not, at the time at which such disclosure was made, have a Materially Adverse Effect upon the Borrower, or its ability to perform its obligations hereunder or on this Agreement or any of the other Loan Documents, and such fact or circumstance should subsequent to such disclosure have a Materially Adverse Effect upon the Borrower or its ability to perform its obligations hereunder or on this Agreement or upon any of the other Loan Documents, such fact or circumstance shall be a Material Adverse Effect subject to Section 3.05.

Section 3.07. Assets. Except for Permitted Liens, all of the assets to which the Borrower has taken title have been fully paid for and are free and clear of all security interests, liens, claims and encumbrances.

Section 3.08. Regulatory Approvals. All approvals and consents by governmental regulatory agencies and bodies having jurisdiction over the Borrower, necessary for the execution, delivery and performance of this Agreement and each of the other Loan Documents have been obtained and remain in full force and effect.

Section 3.09. Subsidiaries. The Borrower has no Subsidiaries.

Section 3.10. Status. The Borrower is a railroad within the meaning of Section 1168 of Title 11 of the United States Code or any successor statute.

#### ARTICLE 4

#### COVENANTS

The Borrower covenants and agrees that so long as any Obligations remain outstanding,

A. The Borrower shall:

Section 4.01. Preservation of Existence and Properties, Scope of Business, Compliance with Law, Payment of Taxes and Claims. (a) Preserve and maintain its corporate existence and all of its other material franchises, licenses, rights and privileges, (b) preserve, protect and maintain all Patents, and preserve and maintain in good repair, working order and condition all other properties, required for the conduct of its business, (c) engage only in businesses in substantially the same fields as the businesses conducted on the date hereof and in other fields of business commonly related to the railroad industry, (d) comply with all Applicable Laws, and (e) pay or discharge when due all Taxes and all claims which might become a Lien on any properties of the Borrower except for any such Taxes and claims which the Borrower is contesting in good faith, by appropriate and diligent legal proceedings and with respect to which the Borrower has established adequate reserves in accordance with Generally Accepted Accounting Principles and for Permitted Liens.

Section 4.02. Accounting Methods and Financial Records. Maintain a system of accounting, and keep such books, records and accounts (which shall be true and complete), as may be required or necessary to permit the preparation of financial statements in accordance with Generally Accepted Accounting Principles, to calculate locomotive and railcar losses, per diem charges and other charges in accordance with the rules of the Association of American Railroads.

Section 4.03. Liability and Casualty Insurance. Maintain at its expense insurance (including liability, casualty and hazard insurance) with responsible insurance companies against such

risks and in such amounts as are customarily maintained by companies engaged in similar businesses and owning similar properties, as may be required by Applicable Law or as may be reasonably requested by the Bank (and, in the case of property insurance, under policies of insurance naming the Bank as mortgagee or loss payee); provided that the Borrower shall in all events maintain casualty insurance coverage in an amount at least equal to the greater of the fair market value of the Locomotives and the principal balance outstanding from time to time under the Term Note. All policies of insurance carried in accordance with this Section and any policies taken out in substitution or replacement for any such policies shall (a) provide that, if such insurance is cancelled or modified for any reason whatsoever, the Bank shall receive thirty (30) days' prior written notice of such cancellation or modification and (b) shall name the Bank and the Borrower as additional insureds and co-loss payees, as their respective interests may appear. The Borrower shall cause all property insurance on the Locomotives to provide that the proceeds for any loss or damage to any Locomotives shall be payable to the Bank. Provided no Event of Default shall have occurred and is continuing, the Borrower shall, at its own cost and expense, be entitled to make all proofs of loss and take all of the steps necessary to collect the proceeds of such insurance. In addition, the Borrower shall remit to the Bank any Association of American Railroad interline settlements it receives with respect to the Locomotives.

The Borrower shall, prior to the Closing Date, furnish to the Bank a certificate signed by the insurer or an independent insurance broker showing the insurances then maintained by the Borrower pursuant to this Section and that all premiums thereon have been paid, or other evidence of maintenance of insurance required hereunder satisfactory to the Bank, and, with respect to any renewal policy or policies, shall furnish certificates or binders evidencing such renewal as soon as practicable, but in no event later than thirty (30) days prior to the expiration date of the original policy or policies.

Section 4.04. Visits and Inspections. Permit representatives (whether or not officers or employees) of the Bank, from time to time, upon notice to the Borrower and during normal business hours, to (a) visit and inspect any properties of the Borrower, (b) inspect and make extracts from its books and records, including, but not limited to, management letters prepared by the Borrower's independent accountants, and (c) discuss with its principal officers, and its independent accountants, its respective businesses, assets, liabilities, financial conditions, results of operations and business prospects.

Section 4.05. Use of Proceeds. Use the proceeds of the amounts advanced hereunder only for the purposes stated herein. None of the proceeds of the Term Loan shall be used to purchase or carry, or to reduce or retire or refinance any credit incurred

to purchase or carry, any margin stock (within the meaning of Regulations U and X of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying any margin stock. If requested by the Bank, the Borrower will furnish to the Bank statements in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U.

Section 4.06. Environmental Laws. Conduct its business so as to comply in all material respects with all applicable environmental, health and safety laws and regulations in all jurisdictions in which it is or may at any time be doing business, including, without limitation, the federal Resource Conservation and Recovery Act, the federal Comprehensive Environmental Response, Compensation and Liability Act, the federal Toxic Substances Control Act, the federal Water Pollution Control Act (commonly known as the federal Clean Water Act), the federal Clean Air Act and the federal Occupational Safety and Health Act, including any amendments of each and reauthorizations of each.

Section 4.07. Plans. Keep in full force and effect any and all Plans unless such Plans can be terminated without liability to the Borrower in connection with such termination (as distinguished from any continuing funding obligation), make contributions to all Plans in a timely manner and in a sufficient amount to comply with the requirements of ERISA, comply with all material requirements of ERISA which relate to the Plans and notify the Bank immediately upon receipt by the Borrower of any notice of the institution of any proceeding or other action which may result in the termination of any Plans.

Section 4.08. Maintenance. At its own expense, maintain, repair and keep the Locomotives in good condition and repair (i) in accordance with Class 1 railroad industry maintenance practices in existence from time to time, (ii) in a manner consistent with maintenance practice used by Borrower in respect of equipment owned or leased by Borrower similar in type to such Locomotives; (iii) in accordance with maintenance requirements of all insurance policies covering such Locomotives; and (iv) in compliance with all applicable laws and regulations of the Association of American Railroads, including any applicable interchange rules.

Section 4.09. Compliance with AAR Regulations. Comply with all rules and regulations of the Association of American Railroads and any successor organization thereof.

Section 4.10. Compliance with Laws Generally. Comply with all laws, rules and regulations binding upon the Borrower or affecting its operations.

Section 4.11. Use of Locomotives. Use the Locomotives only on lines of railroads owned or operated by it, upon lines of

railroads over which it has trackage or other operating rights in the United States of America, in the usual interchange of traffic or in through or run-through service.

Section 4.12. Required Modifications. At its own expense, make all modifications to the Locomotives required by the Association of American Railroads, the United States Department of Transportation or any other United States governmental agency having jurisdiction over the operation, safety and use of the Locomotives and the Bank's security interest in such modification shall immediately vest at the time of affixation or installation thereof.

Section 4.13. Notice of Casualty. Give the Bank prompt written notice of any loss or damage to the Locomotives and the details thereof.

B. The Borrower shall not, without the prior written consent of the Bank, directly or indirectly:

Section 4.14. Guaranties. Become or remain liable with respect to any guaranty of any debt or liability of any other Person.

Section 4.15. Liens. Create, assume or incur, or permit or suffer to exist or to be created, assumed or incurred, any Lien upon any of its properties or assets of any character, whether now owned or hereafter acquired, or upon any income or profits therefrom, except that this Section 4.15 shall not apply to Permitted Liens.

Section 4.16. Indebtedness. Except as otherwise disclosed on Schedule 4.16 hereof, incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, except (i) the Obligations; (ii) unsecured trade obligations in the ordinary course of business; (iii) other unsecured Debt not exceeding \$25,000 at any one time outstanding while this Agreement is in effect; or (iv) other Debt secured only by a purchase money security interest in the assets acquired in connection with the incurrence of such Debt.

Section 4.17. Merger, Consolidation and Sale of Assets. (a) Merge or consolidate with any Person or permit any Person to merge or consolidate with it, or (b) sell, lease, transfer or otherwise dispose of any assets, except that this Section 4.17(b) shall not apply to any disposition of any obsolete or retired property not used or useful in its business.

Section 4.18. Transactions with Affiliates. Effect any transaction with any Affiliate on a basis less favorable to the Borrower than would be the case if such transaction had been effected with a Person not an Affiliate.



Section 4.19. Subsidiaries. Create, acquire or invest in any Subsidiary.

Section 4.20. Investments. Make or permit to exist any investment in the securities of any Person, except any of the following made at a time when no Default or Event of Default has occurred and to the extent such would not otherwise result in the occurrence of a Default or an Event of Default: (i) investments in short-term obligations issued by, or guaranteed by, the United States Government, (ii) negotiable certificates of deposit, time deposits, demand deposits, bankers acceptances or money market securities issued by the Bank or by any domestic national bank having capital and surplus of at least \$100,000,000 in the aggregate at all times, or (iii) investments in commercial paper rated A1 or P1 by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively.

Section 4.21 Capital Expenditures. Except for capital expenditures made by the Borrower in respect of the rehabilitation of the Locomotives from time to time, make capital expenditures in an amount exceeding \$250,000 in any calendar year.

## ARTICLE 5

### INFORMATION

Until such time as all of the Obligations have been paid in full, the Borrower shall furnish to the Bank, at the Bank's Office:

Section 5.01. Monthly Financial Statements. Within thirty (30) days after the end of each month in each fiscal year of the Borrower, balance sheets of the Borrower as at the end of such monthly period, and the related statements of income, retained earnings, changes in financial position and cash flow and for each such financial statement prepared after the end of the first fiscal year of the Borrower, also setting forth in each case in comparative form the figures for the corresponding month of the previous fiscal year, each of which shall be accompanied by a certificate of the president or chief financial officer of the Borrower in the form of Schedule 5.01.

Section 5.02. Quarterly Financial Statements. Within sixty (60) days after the close of each quarterly accounting period in each fiscal year of the Borrower, balance sheets of the Borrower as at the end of such quarterly period and the related statements of income, retained earnings and changes in financial position of the Borrower for the elapsed portion of the fiscal year ended with the last day of such quarterly period and setting forth after the end of the first fiscal year of the Borrower, in each case in comparative form the figures for the corresponding quarter of the previous fiscal year, each of which shall be

accompanied by a certificate of the president or chief financial officer of the Borrower in the form of Schedule 5.01.

Section 5.03. Year-End Statements; No Default Certificate. Within sixty (60) days after the end of each fiscal year of the Borrower, the audited financial sheets of the Borrower as of the end of such fiscal year and the related statements of income, retained earnings and changes in financial position of the Borrower for such fiscal year. Within one hundred twenty (120) days after the end of each fiscal year of the Borrower, the balance sheets of the Borrower as at the end of such fiscal year and the related statements of income, retained earnings and changes in financial position of the Borrower for such fiscal year, and, on and after the end of the second fiscal year of the Borrower, setting forth, in comparative form the figures as at the end of and for the previous fiscal year, in each case certified by independent certified public accountants of recognized standing satisfactory to the Bank, and whose certificates shall be in scope and substance satisfactory to the Bank. Together with such financial statements, the Borrower shall deliver a certificate of such accountants addressed to the Bank stating that (a) the Borrower is authorized to deliver such financial statements and their certifications thereof to the Bank pursuant to this Agreement, (b) they understand that a primary intent of the Borrower in retaining them is to obtain financial statements for the purpose of inducing the Bank to make the loan contemplated hereunder and, accordingly, the Bank is authorized to rely on such financial statements and (c) they have caused this Agreement to be reviewed and that, in making the examination necessary for the certification of such financial statements, nothing has come to their attention to lead them to believe that any Default exists and, in particular, they have no knowledge of any Default under the provisions of Article 6 or, if such is not the case, specifying such Default and its nature, when it occurred and whether it is continuing.

Section 5.04. Officer's Certificate. At the time the financial statements are furnished pursuant to Sections 5.01, 5.02 and 5.03, a certificate of its president or chief financial officer, in the form of Schedule 5.04.

Section 5.05. Additional Materials.

(a) Reports and Filings. (i) Promptly upon receipt thereof, copies of all reports, if any, submitted to the Borrower or its Board of Directors by its independent certified public accountants, including, without limitation, any management report and (ii) as soon as practicable, copies of all such financial statements and reports as the Borrower shall send to its stockholders and of all registration statements and all regular or periodic reports which the Borrower shall file, or may be required to file, if any, with the Securities and Exchange Commission or any successor commission.

(b) Requested Materials. From time to time and promptly upon request of the Bank, such data, certificates, reports, statements, opinions of counsel, documents or further information regarding this Agreement, any of the other Loan Documents, the Locomotives or the business, assets, liabilities, financial condition, results of operations or business prospects of the Borrower, in each case in form and substance and certified in a manner satisfactory to the Bank.

Section 5.06. Notice of Defaults, Litigation and Other Matters. Prompt notice of: (a) any Default; (b) any event or condition referred to in clauses (i) through and including (v) of Section 6.01(h), whether or not such event or condition shall constitute an Event of Default; (c) the commencement of any actions, suits or proceedings or investigations in any court or before any arbitrator of any kind or by or before any governmental or non-governmental body against or in any other way relating adversely to, or affecting, the Borrower or its business or properties; (d) any amendment of the articles of incorporation or by-laws of the Borrower; and (e) any event having a Materially Adverse Effect on the Borrower.

Section 5.07. Accuracy of Pro Forma Information.

(a) Pro Forma Information. The Borrower hereby represents and warrants to the Bank (i) that the pro forma balance sheets most recently provided to the Bank present fairly the Borrower's expected assets, liabilities and financial condition as of the date hereof; and (ii) there are no omissions from the pro forma balance sheets or other facts or circumstances not reflected therein which are or may be material.

(b) Future Information. All data, certificates, reports, statements, opinions of counsel, documents and other information furnished to the Bank pursuant to any provisions of this Agreement or in connection with or pursuant to any amendment or modification of, or waiver under, this Agreement, shall, at the time the same are so furnished, but in the case of information dated as of a prior date, as of such date, (x) be complete and correct in all respects to the extent necessary to give the Bank true and accurate knowledge of the subject matter thereof, (y) not contain any untrue statement of a material fact, and (z) not omit to state a material fact necessary in order to make the statements contained therein not misleading, and the furnishing of the same to the Bank shall constitute a Representation and Warranty by the Borrower made on the date the same are furnished to the Bank to the effect specified in clauses (x), (y) and (z).

## ARTICLE 6

### DEFAULT

Section 6.01. Events of Default. Each of the following shall constitute an Event of Default, whatever the reason for such event and whether it shall be voluntary or involuntary, or within or without the control of the Borrower or be effected by operation of law or pursuant to any judgment or order of any court or any order, rule or regulation of any governmental or non-governmental body:

(a) any payment of principal or interest due hereunder or under the Term Note shall not be made as and when due (whether at maturity, by acceleration or otherwise);

(b) any Representation or Warranty shall at any time prove to have been incorrect or misleading in any material respect when made;

(c) the Borrower shall default in the performance or observance of:

(i) any term, covenant, condition or agreement contained in Section 4.01(a) (insofar as such Section requires the preservation of the corporate existence of the Borrower), Section 4.03, Section 4.06 through Section 4.21, or Section 5.06; or

(ii) any term, covenant, condition or agreement contained in this Agreement or any other Loan Document (other than a term, covenant, condition or agreement a default in the performance or observance of which is elsewhere in this Section specifically dealt with) and in the case of any such default which is curable by the Borrower, such default shall continue unremedied for a period of ten (10) days; provided, however, that in the event such default cannot be cured within ten (10) days, the cure period under this clause will, upon notice by the Borrower to the Bank, be extended for up to two more successive periods of ten (10) days for as long as the Borrower is making diligent efforts to remedy such default or, if earlier, until it is determined that such default cannot be cured;

(d) the Borrower shall fail to pay, in accordance with its terms and when due and payable, the principal of or interest on any Debt (other than Debt evidenced hereby or by the Term Note) or the maturity of any such Debt shall have been accelerated in accordance with the provisions of any Contract evidencing, providing for the creation of or concerning such Debt or any such Debt shall have been required to be prepaid prior to the stated maturity thereof or any event shall have occurred and be continuing which, with the passage of time or the giving of notice, or both, would permit any holder or holders of such Debt, any trustee or agent acting on behalf of such holder or holders or any other Person so to accelerate such maturity;

(e) a default shall occur and be continuing under any Contract (other than one relating to Debt to which clause (d) of this Section 6.01 is applicable) binding upon the Borrower;

(f) (i) the Borrower shall (A) commence a voluntary case under the Federal bankruptcy laws or other similar Federal or state laws (as now or hereafter in effect), (B) file a petition seeking to take advantage of any other laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, (C) consent to or fail to contest in a timely and appropriate manner any petition filed against it in an involuntary case under such bankruptcy laws or other similar laws, (D) apply for, or consent to, or fail to contest in a timely and appropriate manner, the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of a substantial part of its assets, domestic or foreign, (E) admit in writing its inability to pay, or generally not be paying, its debts (other than those that are the subject of a bona fide dispute) as they become due, (F) make a general assignment for the benefit of creditors, or (G) take any corporate action for the purpose of effecting any of the foregoing; or

(ii) a case or other proceeding shall be commenced against the Borrower in any court of competent jurisdiction seeking (A) relief under the federal bankruptcy laws (as now or hereafter in effect) or under any other similar laws, domestic or foreign, relating to bankruptcy, insolvency, reorganization, winding up or adjustment of debts, or (B) the appointment of a trustee, receiver, custodian, liquidator or the like of the Borrower or of all or any substantial part of the assets, domestic or foreign, of the Borrower and such case or proceeding shall continue undismissed or unstayed for a period of sixty (60) calendar days, or an order granting the relief requested in such case or proceeding against the Borrower (including, but not limited to, an order for relief under such federal bankruptcy laws) shall be entered; or

(g) a judgment or order for the payment of money shall be entered against the Borrower by any court, and such judgment or order either (i) exceeds \$100,000 and is not discharged or stayed pending appeal or covered in whole or (subject to reasonable deductibles) in part, by insurance, or (ii) in the case of judgments or orders aggregating more than \$50,000 but less than \$100,000 shall continue undischarged or unstayed for a period of thirty (30) consecutive days or more unless covered in whole, or (subject to reasonable deductibles) in part, by insurance;

(h) (i) a Plan Termination Event with respect to a Plan shall occur, (ii) any Person shall engage in any Prohibited Transaction involving any Plan, (iii) an Accumulated Funding Deficiency, whether or not waived, shall exist with respect to any Plan, (iv) the Borrower or any ERISA Affiliate shall be in "default" (as defined in Section 421g(c)(5) of ERISA) with

respect to payments due to a Multiemployer Plan resulting from the Borrower's or such Affiliate's complete or partial withdrawal (as described in Section 4203 or 4205 of ERISA) from such Plan, or (v) any other event or condition shall occur or exist with respect to a Single Employer Plan, except that no event or condition referred to in any of the clauses (i) through (v) shall constitute an Event of Default if it, together with all other events or conditions at the time existing, would not subject the Borrower or any ERISA Affiliate to any Tax, penalty, Debt or Liability which, alone or in the aggregate, would have a Materially Adverse Effect on the Borrower or any ERISA Affiliate.

**Section 6.02. Remedies upon Event of Default.**

(a) Upon the occurrence and during the continuance of any Event of Default (other than one specified in Section 6.01(f)) and in every such event, the Bank, upon notice to the Borrower, may take any one or more of the following actions:

(i) by written notice to the Borrower declare the entire principal amount of the Term Note to be immediately due and payable, whereupon the Term Note shall become due and payable, both as to principal, premium, if any, and interest, without presentment, demand or protest of any kind, all of which are hereby expressly waived, anything contained herein or in the Term Note to the contrary notwithstanding;

(ii) institute legal proceedings to foreclose upon and against the security interests granted herein, to recover judgment for all amounts then due and owing as indebtedness hereunder or under the Term Note, and to collect the same;

(iii) institute legal proceedings for the sale, under the judgment or decree of any court of competent jurisdiction, of any of the Collateral;

(iv) institute legal proceedings for the appointment of a receiver or receivers pending foreclosure hereunder or the sale of any of the Collateral under the order of a court of competent jurisdiction or under other legal process;

(v) personally, or by agents or attorneys, enter into and upon any premises wherein the Collateral or any part thereof may then be located, and take possession of all or any part thereof or render it unusable, and, without being responsible for loss or damage, hold, store and keep idle, or operate, lease or otherwise use or permit the use of the same or any part thereof for such time and upon such terms as the Bank may determine, in a commercially reasonable manner;

(vi) personally, or by agents or attorneys, enter into and upon any premises wherein the Collateral or any part thereof may then be located, and take possession of all or any part thereof with or without process of law and without being

responsible for loss or damage and sell or dispose of all or any part of the same, free from any and all claims of Borrower or of any other party claiming by, through or under Borrower at law, in equity or otherwise, at one or more public or private sales, in such place or places, at such time or times and upon such terms as the Bank may determine, in a commercially reasonable manner with or without any previous demand on or notice to Borrower or advertisement of any such sale or other disposal, except that the Bank shall provide Borrower with at least five (5) days' prior notice of such sale by certified mail, return-receipt requested; and for the aforesaid purposes, all other notices of sale, advertisement and demand and any right or equity of redemption otherwise required by, or available to Borrower under, applicable law are hereby waived by Borrower to the fullest extent permitted by applicable law; the power of sale hereunder shall not be exhausted by one or more sales, and the Bank may from time to time adjourn any sale to be made hereunder;

(vii) demand, collect, and retain all rentals, earnings and all other sums due and to become due pursuant to subsections (v) or (vi) of this Section 6.02 from any party whomsoever, accounting only for net earnings arising after charging against all receipts from the use of or sale of the Collateral, all costs and expenses of, and damages or losses by reason of, such use or sale;

(viii) if and to the extent the Default results from a breach by Borrower of any representation, warranty or covenant of the Borrower contained herein, institute legal proceedings against the Borrower to enforce performance of the applicable covenant of the Borrower or to recover damages for the breach of any such representation, warranty or covenant; and

(ix) exercise any and all of its other rights under Applicable Law, hereunder and under the other Loan Documents. Upon the occurrence of an Event of Default specified in Section 6.01 (f), automatically and without any notice to the Borrower (A) the principal of, premium, if any, and interest outstanding hereunder and under the Term Note and all other amounts owing under this Agreement, the Term Note and the other Loan Documents shall be immediately due and payable to the Bank and (B) the Bank may exercise any and all of its other rights under Applicable Law, hereunder and under the other Loan Documents, including, without limitation, the rights set forth above in this subsection 6.02(a).

(b) Notice. If the Bank must give prior notice to the Borrower of any of the foregoing acts, the Borrower hereby covenants and agrees that a notice sent to it in writing by certified mail, return-receipt requested, at least five (5) business days before the date of any such act (or such longer period as may be required by Applicable Law), at its address provided hereunder shall be deemed to be reasonable notice of such act and, specifically, reasonable notification of the time

and place of any public sale hereunder and the time after which any private sale or other intended disposition is to be made hereunder.

(c) Application of Proceeds. The proceeds from the sale of the Collateral pursuant to any of the provisions of this Section shall be applied by the Bank, as follows:

(a) first, to the payment of all costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liability and advances, including reasonable attorneys' fees and expenses, incurred or made hereunder by the Bank, and of all taxes, assessments or liens superior to the lien of these presents;

(b) second, to the payment to the Bank of the amounts of principal, premium, if any, and accrued interest unpaid on the Term Note; and in case such proceeds shall be insufficient to pay in full the amount unpaid on the Term Note, first, to the unpaid interest thereof, then to the unpaid premium, if any, and thereafter to the unpaid principal payments thereof in inverse order of maturity; and

(c) third, to the payment of the surplus, if any, to the Borrower, its successors and assigns, or to whosoever may be lawfully entitled to receive the same.

Section 6.03. Waiver by the Borrower. To the fullest extent that it may lawfully so agree, the Borrower shall not at any time insist upon, claim, plead, or take any benefit or advantage of, any appraisal, valuation, stay, extension, moratorium, redemption or any similar law now or hereafter in force in order to prevent, delay or hinder the enforcement of this Agreement or the absolute sale of any part or all of the Collateral or the possession thereof by any purchaser at any sale pursuant to Section 6.02 above; and the Borrower, for itself and all who may claim through it, as far as it or they now or hereafter lawfully may so do, hereby waives the benefit of all such laws and all right to have the Collateral marshalled upon any foreclosure hereof, and agrees that any court having jurisdiction to foreclose under this Agreement may order the sale of the Collateral as an entirety.

Section 6.04. Right to Purchase Collateral. At any sale pursuant to Section 6.02 hereof, the Bank or its agent may, to the extent permitted by Applicable Law, bid for and, if the Bank is the highest bidder, purchase the Collateral offered for sale, may use any claim for Indebtedness (as hereinafter defined) payable to it as a credit against the purchase price and, upon compliance in full with the terms of such sale, may hold, retain and dispose of such property without further accountability therefor to the Borrower or any other party.

Section 6.05. Cumulative Rights. Each right, power and remedy herein specifically granted to the Bank or otherwise



available to it shall be cumulative, and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or otherwise; and each right, power and remedy, whether specifically granted herein or otherwise existing, may be exercised, at any time and from time to time, as often and in such order as may be deemed expedient by the Bank in its sole and complete discretion; and the exercise or commencement of exercise of any right, power or remedy shall not be construed as a waiver of the right to exercise, at the same time or thereafter, the same or any other right, power or remedy. No delay or omission by the Bank in exercising any such right or power, or in pursuing any such remedy, shall impair any such right, power or remedy or be construed to be a waiver of any default on the part of the Borrower or an acquiescence therein. No waiver by the Bank of any breach or default of or by the Borrower under this Agreement shall be deemed to be a waiver of any other or similar, previous or subsequent breach or default.

## ARTICLE 7

### SECURITY

Section 7.01. Grant of Security. (a) In order to secure the prompt payment of the principal of, premium, if any, and interest on the Term Note (whether now or hereafter outstanding) and of all other moneys payable and to be payable to the Bank under this Agreement (collectively the "Indebtedness"), and the timely and faithful performance and observance by the Borrower of all of the agreements, covenants and provisions contained in this Agreement and in the Term Note, the Borrower has granted, conveyed, pledged, sold, mortgaged, assigned, transferred and set over a security interest, and does hereby grant, convey, pledge, sell, mortgage, assign, transfer and set over a first priority lien on and continuing security interest unto the Bank in all of the Borrower's right, title and interest in and to (i) the Locomotives, together with all accessions, accessories, equipment, appurtenances, replacements and parts appertaining or attached thereto, whether now owned or hereafter acquired, and all substitutions, renewals and replacements thereof; (ii) all agreements now or hereafter entered into by the Borrower with respect to the refurbishing, repair or rebuilding of the Locomotives; (iii) all monies and other funds from time to time on deposit with the Bank; (iv) all proceeds (cash and non-cash), including insurance proceeds and condemnation awards, thereof; and (v) all books and records relating to any of the foregoing (all such property is hereinafter collectively referred to as the "Collateral"), to have and to hold all and every part of the Collateral unto the Bank, its successors and assigns, for its and their own use and benefit forever;

(b) PROVIDED FURTHER, and these presents are on the condition that, if the Borrower, or its successors or assigns,

shall pay or cause to be paid to the Bank all of the Indebtedness hereunder in accordance with its terms, as provided in this Agreement and the Term Note and shall well and faithfully perform and observe all of the agreements, covenants, and provisions hereof and thereof at the time and in the manner specified, then all rights herein assigned to the Bank shall cease and terminate, all estate, right, title and interest of the Bank in and to the Collateral shall revert to the Borrower and this Agreement and the rights and powers granted herein and hereby shall cease to be binding and shall be of no further force and effect; and

(c) PROVIDED FURTHER, that, subject to the terms and provisions hereof and unless otherwise stated herein, the Borrower may retain possession, use and enjoyment of the Collateral, as long as no Default or Event of Default shall have occurred and be continuing.

Section 7.02. The Bank as Agent. Subject to Section 7.01 hereof, the Borrower hereby appoints the Bank, its successors and assigns, the true and lawful attorney of the Borrower, irrevocably and with full power of substitution, in the name of the Borrower or otherwise, to demand, receive, compromise, sue for, and give acquittance for, any and all rentals, profits, moneys and claims for money due and to become due with respect to the Collateral or otherwise arising out of this Article 7, to endorse any checks or other instruments or orders in connection therewith, to make all waivers and agreements and to file any claims or take any actions or institute any proceedings with respect thereto which the Bank may deem reasonably necessary or advisable upon default by the Borrower. Anything herein contained to the contrary notwithstanding, neither the Bank nor its nominee or assignee shall have any obligation or liability by reason of or arising out of this Article 7 to make any inquiry as to the nature or sufficiency of, to present or file any claim with respect to, or to take any action to collect or enforce the payment of, any amount to which it may be entitled at any time or times by virtue of this Article 7.

Section 7.03. Perfecting Interest in Security. The Borrower hereby represents and warrants that as of the date hereof (and after giving effect to any filings which the Bank has advised the Borrower it has previously made) all recordings and filings shall have been made, or caused to be made, which are necessary or appropriate to perfect the Bank's interest in the Collateral, including, without limitation, recordings and filings with the Interstate Commerce Commission and with the appropriate state and local UCC filing offices, and that no other filings, recordings, depositing or giving of notice is necessary in order to protect the rights of the Bank in and to the Collateral. The Borrower shall, from time to time and at its own expense, promptly execute, acknowledge, witness, deliver and file and/or record, or procure the execution, acknowledgment, witnessing, delivery and filing and/or recordation of, such documents or instruments, and shall take or cause to be taken such other actions, as the Bank

may reasonably request for the perfection against the Borrower and all third parties whomsoever of the security interests created by this Article 7, of the rights and powers herein granted to the Bank and for the continuation and protection thereof and promptly give to the Bank evidence satisfactory to the Bank of such delivery and filing and/or recording. Without limiting the generality of the foregoing, the Borrower shall from time to time and at any time execute, acknowledge, witness and deliver such financing and continuation statements, notices and additional security agreements, make such notations on its records and take such other action as the Bank may reasonably request for the purpose of so perfecting, maintaining and protecting such security interest of the Bank, and shall cause this Agreement and each such financing and continuation statements, notices and additional security agreements to be filed or recorded in such manner and in such places as may be required by Applicable Law and as the Bank may reasonably request for such purpose. The Borrower hereby authorizes the Bank to effect any filing or recording which the Bank has requested pursuant to this Section 7.03 without the signature of the Borrower to the extent permitted by Applicable Law. All costs and expenses of the Bank with respect to such actions shall be payable by the Borrower on demand and shall be secured by the Collateral.

Section 7.04. After-Acquired Property. Any and all property of the Borrower which is hereafter acquired and attached to or made a part of the Locomotives shall, without any further conveyance, assignment or act on the part of the Borrower or the Bank, become and be subject to the security interest herein granted as fully and completely as though specifically described herein. The Borrower shall, at its expense, do, execute, acknowledge and deliver all and every further acts, deeds, conveyances, transfers and assurances necessary or proper for the perfection of the security interest being herein provided for in the Collateral, whether now owned or hereafter acquired.

Section 7.05 Usage. So long as no Default or Event of Default shall have occurred and be continuing, the Borrower alone shall be entitled to the possession and use of the Locomotives in accordance with the terms of this Agreement.

Section 7.06. Marking of Locomotives. The Borrower shall, at its own expense, cause the Locomotives to be kept numbered with the identifying road number set forth in Schedule 1 hereto, and will keep and maintain, plainly, distinctly, permanently and conspicuously marked on each side of the Locomotives the words "Ownership Subject to a Term Loan and Security Agreement filed with the Interstate Commerce Commission," or other appropriate markings approved in writing by the Bank, with appropriate changes thereof in order to protect the Bank's security interest in the Locomotives, and its rights under this Agreement. The Borrower shall, at its expense, replace promptly any such markings which may be removed, defaced, obliterated or destroyed

and shall not change the numbers of the Locomotives except in accordance with a statement of new number or numbers to be substituted therefor, which statement previously shall have been filed with the Bank and filed, recorded and deposited by the Borrower in all public offices where this Agreement shall have been filed, recorded and deposited.

Section 7.07. Registration of Locomotives. The Borrower shall, at its expense, register or cause to be registered the Locomotives and any substitute equipment in accordance with any and all applicable federal, state, and local registration requirements of the Association of American Railroads and the Interstate Commerce Commission or any of their successor organizations.

Section 7.08. Protection of Security. The Borrower shall not:

(a) permit any of the Collateral to be levied upon under legal process or to fall under any other lien (other than Permitted Liens) or encumbrance of whatever nature arising as a result of claims against the Borrower;

(b) except with the prior written consent of the Bank, sell, assign (including by virtue of assignments by operation of law), mortgage, pledge or otherwise transfer or encumber any of the Collateral (except as contemplated herein) or take any action which would permit any party other than the Bank to perfect any security interest in the Collateral, whether for purchase money or otherwise.

Section 7.09. Indemnity for Acts and Omissions of the Borrower. The Borrower covenants and agrees with the Bank that in any suit, proceeding or action brought or taken by the Bank under this Agreement or any other agreement relating to the Collateral, the Borrower will save, indemnify and keep the Bank, its officers, agents and employees harmless from and against all expense (including legal fees and expenses), loss or damage suffered by the Bank as a result of any action, or failure to act, of the Borrower.

Section 7.10. Taxes. The Borrower will pay all Taxes in connection with the issuance, sale or delivery of the Term Note and the execution and delivery of this Agreement and any other agreements and instruments contemplated hereby and any modification of the Term Note, this Agreement or such other agreements and instruments and will save the Bank harmless, without limitation as to time, against any and all liabilities with respect to all such Taxes. The Borrower will also pay all other taxes, assessments or charges which may be levied on the Term Note or interest thereon, except any income tax imposed under the laws of the United States of America or of any foreign country, and will save the Bank harmless, without respect to all such taxes, assessments or charges. The obligations of the

Borrower under this Section 7.10 shall survive the payment or prepayment of the Term Note and the termination of this Agreement.

Section 7.11. Disclaimer by the Bank. The Bank makes no representations or warranties with respect to the Collateral or any part thereof; the Bank shall not be chargeable with any obligations or liabilities of the Borrower with respect thereto; and the Bank shall have no liability or obligation arising out of any such claims, known or unknown, with respect to the Collateral.

Section 7.12. Casualty; Insurance Proceeds. In the event that any Locomotive (i) shall suffer destruction, damage, contamination or wear which in the Borrower's good faith opinion makes the repair uneconomical or renders such Locomotive unfit for commercial use, or (ii) shall suffer theft or disappearance, or (iii) shall be permanently returned to the manufacturer pursuant to a patent indemnity provision, or (iv) shall have title thereto taken or appropriated by any governmental authority under the power of eminent domain or otherwise, or (v) shall be taken or requisitioned for use by any governmental authority under power of eminent domain or otherwise (any such occurrence being hereinafter called an "Event of Loss"), the Borrower shall promptly inform the Bank of such Event of Loss.

Upon occurrence of an Event of Loss, the Borrower shall, within thirty (30) days thereof, give the Bank notice of its election to perform one of the following options (it being agreed that if the Borrower shall not have given notice of such election within such thirty (30) days after notice of such occurrence, the Borrower shall be deemed to have elected to perform the option set forth in the following paragraph):

(i) As promptly as practical, and in any event within thirty (30) days of the date of said occurrence, the Borrower shall repair or restore the damaged Locomotive or shall obtain a replacement Locomotive, such replacement Locomotive to be free and clear of all liens and encumbrances (other than Permitted Liens) and to have a fair market value, utility, and remaining useful life at least equal to the Locomotive so replaced (assuming such Locomotive was in the condition required to be maintained by the terms of this Agreement); provided, however, that if the Borrower shall not perform its obligation to effect such repair or replacement within the period of time provided above, then the Borrower shall pay to the Bank on the next installment payment date the Casualty Value of such Locomotive as specified in paragraph (ii) below; or

(ii) On or before the next installment payment date following the Event of Loss, the Borrower shall pay or cause to be paid to the Bank an amount equal to the Casualty Value of such Locomotive determined as of such date. As used herein, the term "Casualty Value," with respect to each Locomotive, shall mean the

product of the then outstanding balance of the Loan multiplied by the fraction, the numerator of which is 1 and the denominator of which is the number of Locomotives still subject to the terms of this Agreement.

Upon payment of all sums required to be paid pursuant hereto in respect of any Locomotive or Locomotives, the Bank shall release its lien on such Locomotive or Locomotives and shall execute and deliver to the Borrower such statement or statements of partial release or other documents and instruments as the Borrower shall reasonably request to evidence the release by the Bank of its interest in said Locomotive or Locomotives. As to each Locomotive so disposed of, the Borrower shall be entitled to any amounts arising from such disposition, plus any awards, insurance or other proceeds and damages (including any Association of American Railroads interline settlement paid upon an Event of Loss) received by Borrower or the Bank for reason of such Event of Loss after having paid to the Bank the Casualty Value attributable thereto.

At the time of or prior to any replacement of any Locomotive, the Borrower, at its own expense, will (a) furnish the Bank with evidence satisfactory to the Bank of its ownership interest in the replaced Locomotive, (b) cause such loan supplement or other document to be executed subjecting said replacement Locomotive to the terms of this Agreement and file and/or deposit the same for recordation in the same manner as this Agreement, and (c) cause financing statement or statements with respect to the replacement Locomotive to be filed in such place or places as may be necessary in order to perfect the security interest created by or pursuant to this Agreement.

## ARTICLE 8

### MISCELLANEOUS

Section 8.01. Notices. All notices and other communications under this Agreement and the other Loan Documents, including but not limited to, materials delivered pursuant to Article 5, shall (a) except in those cases where a telephone notice is expressly permitted, be in writing (which shall include communications by telex, telecopy or certificated messenger service), (b) be (i) sent by registered or certified mail, postage prepaid, return-receipt requested, by prepaid telex or telecopier, (ii) delivered by hand or (iii) where so specified, given by telephone, (c) be given at the following respective addresses and telex, telecopier, and telephone numbers:

(i) if to the Borrower, at:

Octoraro Railway, Inc.  
505 S. Broad Street  
Kennett Square, Pennsylvania 19348

Telephone No.:  
Facsimile No.:

Attention: President

with a copy to: Eric D. Gerst, Esq., 21 S. 5th St., Ste 528, Phila, Pa 19106; (215) 595-8182 (Phon

(ii) if to the Bank, at: (215) 922-3926 (Fax)

The First National Bank of Maryland  
Transportation Division  
25 S. Charles Street, 15th Floor  
Baltimore, Maryland 21201

Facsimile No.: 301-244-4142  
Telephone No.: 301-244-4823

Attention: Michael F. Dockman  
Assistant Vice President

with a copy to: Ober, Kaler, Grimes & Shriver  
120 East Baltimore Street  
Baltimore, Maryland 21202

Facsimile No.: 301-547-0699  
Telephone No.: 301-685-1120

Attention: Patrick K. Cameron, Esq.

or at such other address or telex, telecopier or telephone number as the Bank or the Borrower may hereafter specify for the purpose in a notice to the other specifically captioned "Notice of Change of Address", and (d) be effective or deemed delivered or furnished (i) if given by mail, on the third (3rd) Business Day after such communication is deposited in the U.S. mail, addressed as above provided, (ii) if given by telex or telecopier, when such communication is transmitted to the appropriate number determined as above provided in this Section 8.01 and the appropriate answer-back is received or receipt is otherwise acknowledged, (iii) if given by hand delivery, when left at the address of the addressee addressed as above provided, and (iv) if given by telephone, when communicated to the Person or to the holder of the office specified as the Person or officeholder to whose attention communications are to be given, or, in the case of notice to the Borrower under Section 6.01 given by telephone as provided below, if such Person or officeholder is unavailable at the time, to any other officer or employee of the Borrower, except that notices of a change of address, telex, telecopier or telephone number, and notices to the Bank under Article 2 shall not be effective until received, and, in the case of the Bank,

such notices, and materials requested by the Bank pursuant to Section 5.06(b), shall not be deemed received until physically received by the officer of the Bank responsible for the administration of this Agreement not later than 10:00 a.m., Baltimore time, on any day if such day is to count as a Business Day for the purpose of determining the adequacy of any notice to the Bank hereunder. Notices under Article 1 may be by telephone, confirmed in writing, provided that failure to provide written confirmation of any notice previously provided by telephone shall not impair the effectiveness of such notice; provided, however, that in the event of a discrepancy between telephonic notice and the written confirmation thereof, or in the event written confirmation of such notice is not furnished, the telephonic notice as understood by the Bank will be deemed the effective notice.

Section 8.02. Expenses. Whether or not any of the transactions contemplated hereunder are consummated, the Borrower will, upon demand, (a) pay or reimburse the Bank for all out-of-pocket costs and expenses, including legal fees and disbursements and fees and disbursements of other experts, incurred by the Bank in connection with (i) the preparation, execution and delivery of this Agreement, and any other Loan Documents, any amendment, modification or waiver hereof or thereof hereunder, (ii) the administration of and operations under this Agreement and the other Loan Documents, (iii) the protection, preservation, exercise or enforcement of any of its rights hereunder, under the other Loan Documents, or any other document issued pursuant thereto or in connection therewith or the consultation with respect to any such rights or any of its obligations under any of the foregoing, and (iv) the defense of any claim referred to in clause (b)(i) below, and (b) pay, and indemnify and hold the Bank harmless from and against (i) any losses in connection with any claim in any way arising out of, related to or connected with, this Agreement, the Term Note, the other Loan Documents and (ii) all transfer, documentary stamp and similar taxes, and recording and filing fees, payable in respect of this Agreement and the other Loan Documents. The Borrower's obligation under this Section 8.02 shall survive the repayment of principal, premium, if any, and interest hereunder and under the Term Note.

Section 8.03. Rights Cumulative. The rights and remedies of the Bank under this Agreement and the other Loan Documents shall be cumulative and not exclusive of any rights or remedies which the Bank would otherwise have, and no failure or delay by the Bank in exercising any right shall operate as a waiver of it, nor shall any single or partial exercise of any power or right preclude its other or further exercise or the exercise of any other power or right.

Section 8.04. Disclosures. The Bank may disclose to, and exchange and discuss with, any other Person (the Bank and each such other Person being hereby irrevocably authorized to do so) any information concerning the Borrower (whether received by the



Bank or such Person in connection with or pursuant to this Agreement or otherwise) for the purpose of protecting, preserving, exercising or enforcing any rights hereunder or under any of the other Loan Documents, or consulting with respect to any such rights or any rights of the Borrower, and the Bank may disclose to any Person any such information as may be required by Applicable Law or in accordance with the Bank's normal procedures; provided, however, that except as may be required by Applicable Law, nothing herein shall authorize the Bank to disclose proprietary information to the Borrower's competitors.

Section 8.05. Waivers; Amendments. Any term, covenant, agreement or condition of this Agreement or any of the other Loan Documents may be amended or waived, and any departure therefrom may be consented to, if, but only if, such amendment, waiver or consent is in writing and is signed by the Bank and, in the case of each amendment, is signed by the Borrower. Unless otherwise specified in such waiver or consent, a waiver or consent given hereunder shall be effective only in the specific instance and for the specific purpose for which given.

Section 8.06. Set-Off. Upon and after the occurrence of any Event of Default, the Bank and each of its branches and offices is hereby authorized by the Borrower, at any time and from time to time, without notice, (a) to set against, and to appropriate and apply to the payment of, the Obligations (whether matured or unmatured, fixed or contingent or liquidated or unliquidated) any and all amounts owing by the Bank or any such office or branch to the Borrower (whether payable in Dollars or any other currency, whether matured or unmatured, and, in the case of deposits, whether general or special, time or demand and however evidenced) and (b) pending any such action, to the extent necessary, to hold such amounts as collateral to secure the Obligations and to return as unpaid for insufficient funds any and all checks and other items drawn against any deposits so held as the Bank in its sole discretion may elect.

Section 8.07. Assignment. All the provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement or lease or allow the Locomotives to be used by any other Person without the prior written consent of the Bank, and no such assignment, transfer lease or use shall relieve the Borrower thereof unless the Bank shall have consented to such release in a writing specifically referring to the obligation from which the Borrower is to be released.

Section 8.08. Participations. The Bank may from time to time sell or otherwise grant participations in this Agreement and the Term Note, and the holder of any such participation, if the participation agreement so provides, (i) shall, with respect to its participation, be entitled to all of the rights of the Bank

and (ii) may exercise any and all rights of set-off or banker's lien with respect thereto, in each case as fully as though the Borrower were directly indebted to the holder of such participation in the amount of such participation.

Section 8.09. Governing Law. This Agreement and the other Loan Documents shall be construed in accordance with and governed by the internal laws (as opposed to conflicts of law provisions) and decisions of the State of Maryland.

Section 8.10. Judicial Proceedings; Service of Process; Waiver of Jury Trial. Any judicial proceeding brought against the Borrower with respect to this Agreement or any of the other Loan Documents, may be brought in any Federal or state court of competent jurisdiction located in the State of Maryland, and, by execution and delivery of this Agreement, the Borrower (a) accepts, generally and unconditionally, the non-exclusive jurisdiction of such courts and any related appellate court, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement or any of the other Loan Documents and (b) irrevocably waives any objection it may now or hereafter have as to the venue of any such suit, action or proceeding brought in such a court or that such court is an inconvenient forum. The Borrower hereby waives personal service of process and consents that service of process upon it may be made by certified or registered mail, return receipt-requested, at its address specified or determined in accordance with the provisions of Section 8.01, and service so made shall be deemed completed on the third (3rd) Business Day after such service is deposited in the U.S. mails. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of the Bank to bring proceedings against the Borrower in the courts of any other jurisdiction. Any judicial proceeding by the Borrower against the Bank involving, directly or indirectly, any matter in any way arising out of, related to, or connected with this Agreement, any of the other Loan Documents or any Lease shall be brought only in a court located in the State of Maryland. THE BORROWER HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING BROUGHT BY IT OR BY THE BANK INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS.

Section 8.11. Taxes. All taxes (excluding income taxes but including Pennsylvania franchise taxes [to the extent the Bank is subjected to such taxes by virtue of its participation in the transactions contemplated hereunder] computed with reference to the net income of the Bank) payable or ruled payable by any Federal, state or local authority in respect of the Loan Documents or the transactions contemplated thereby shall be paid by the Borrower, together with interest and penalties thereon, if any.

Section 8.12. Severability of Provisions. Any provision of this Agreement or any of the other Loan Documents which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by Applicable Law, the Borrower hereby waives any provision of law which renders any provision hereof or thereof prohibited or unenforceable in any respect.

Section 8.13. Counterparts. This Agreement and each of the other Loan Documents may be executed in any number of counterparts, each of which shall be deemed to be an original and shall be binding upon all parties, their successors and assigns.

Section 8.14. Entire Agreement. This Agreement and the other Loan Documents embody the entire agreement between the parties hereto and supersede all prior agreements, representations and understandings, if any, relating to the subject matter hereof.

## ARTICLE 9

### ADDITIONAL LOAN PROVISIONS

Section 9.01. Regulatory Changes. If any Regulatory Change:

(a) shall subject the Bank to any Tax (other than a Tax on the overall net income or profits of the Bank), duty or other charge determined by the Bank to be applicable to any loan, to its obligation to make or maintain any loan, or to this Agreement or any of the other Loan Documents, or shall, in the determination of the Bank, change the basis of taxation of payments to the Bank of the principal of, or premium or interest on any loan or its obligation to maintain any loan; or

(b) shall impose, increase, modify or deem applicable any reserve, special deposit, assessment, capital adequacy requirement or other requirement against assets of, deposits with or to the account of, or credit extended by the Bank, or shall impose on the Bank or on an relevant interbank market for Dollars, or the market for certificates of deposit, any condition; and the result of the foregoing, in the determination of the Bank, is (x) to reduce the amount of any sum received or receivable by such Bank with respect to any amounts loaned hereunder or return to be earned by the Bank on any amounts loaned hereunder, (y) to impose a cost on the Bank that is attributable to the maintaining of the Term Loan or to amounts loaned thereunder, or (z) to require the Bank to make any payment on or calculated by reference to the gross amount of any amount received by it hereunder or under the Term Note, then, within fifteen (15) days after request by the Bank, the Borrower shall

pay to the Bank such additional amount or amounts as the Bank determines will compensate the Bank for such reduction, increased cost or payment. The Bank will promptly notify the Borrower of any Regulatory Change of which it has knowledge which will entitle the Bank to compensation pursuant to this Section 9.01, but the failure to give such notice shall not affect the Bank's right to such compensation.

Section 9.02. Determinations. In making the determinations contemplated by Section 9.01, the Bank may make such reasonable estimates, assumptions, allocations and the like that the Bank in good faith determines to be appropriate, but the Bank's selection thereof in accordance with this Section 9.02 and the determinations made by the Bank on the basis thereof, shall be final, binding and conclusive upon the Borrower, except, in the case of such determinations, for manifest errors in computation or transmission. The Bank shall furnish to the Borrower upon request a certificate outlining in reasonable detail the computation of any amounts claimed by the Bank under this Article 11 and the assumptions underlying such computations.

## ARTICLE 10

### INTERPRETATION

Section 10.01. Interpretation. (a) Defined Terms. For the purposes of this Agreement:

"Accumulated Funding Deficiency" shall have the meaning ascribed to that term in Section 302 of ERISA.

"Affiliate" means, with respect to a Person, any other Person that, directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such first Person.

"Agreement" means this Term Loan and Security Agreement, as amended from time to time, and after giving effect to all waivers and departures from the terms hereof that have been consented to, but only, in the case of each such amendment, waiver or consent, to the extent it complies with the provisions of Section 8.05 of this Agreement.

"Applicable Law" means, anything in Section 8.09 of this Agreement to the contrary notwithstanding, all material applicable provisions of all (a) constitutions, statutes, rules, regulations and orders of governmental bodies, (b) Governmental Approvals and (c) orders, decisions, judgments and decrees of all courts and arbitrators; except that for purposes of determining the maximum interest rate payable hereunder, Applicable Law means the Applicable Law of the State of Maryland applicable to maximum permitted rates of interest.

"Bank's Office" means the address of the Bank specified in or determined in accordance with the provisions of Section 8.01.

"Base Rate" shall mean the rate of interest announced from time to time by the Bank as its prime rate, whether or not such rate is otherwise published.

"Borrower" means Octoraro Railway, Inc., a Pennsylvania corporation.

"Business Day" means any day other than a Saturday, Sunday or other day on which banks in Philadelphia, Pennsylvania or Baltimore, Maryland are authorized to close.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collateral" shall have the meaning set forth in Section 7.01 hereof.

"Contract" means an indenture, agreement (other than this Agreement), other contractual restriction, lease, instrument, certificate of incorporation or charter, or by-law.

"Debt" of any Person means at any time, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business but only if and so long as the same are payable on customary trade terms, (d) all obligations of such Person as lessee under capital leases, (e) all Mandatorily Redeemable Obligations of such Person, (f) all Debt secured by a Lien on any asset of such Person, whether or not such debt is assumed by such Person, and (g) all Debt of others guaranteed by such Person.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time, or both, would, unless cured or waived, become an Event of Default.

"Dollars" and the sign "\$" mean lawful money of the United States of America.

"ERISA" means the Employee Retirement Income Security Act of 1974, as in effect from time to time.

"ERISA Affiliate" means a Person which is under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code, including, but not limited to, a Person who is an Affiliate of the Borrower or a Subsidiary.

"Event of Default" means any of the events specified in Section 6.01 of this Agreement.

"Generally Accepted Accounting Principles" means generally accepted accounting principles as in effect from time to time in the United States of America.

"Governmental Approval" means an authorization, consent, approval, license or exemption of, registration or filing with, or report or notice to, any governmental unit.

"Guaranty" means the Guaranty executed by Eric D. Gerst, as amended and supplemented from time to time, in substantially the form of Exhibit B.

"Locomotives" shall have the meaning set forth in Section 7.01 hereof.

"Indebtedness" shall have the meaning set forth in Section 7.01.

"Liability", as applied to a Person, means an obligation or liability, whether arising under Contract, Applicable Law or otherwise, in each case to the extent such obligation or liability does not otherwise constitute Debt of such Person.

"Lien", as applied to the property or assets (or the income or profits therefrom) of any Person, means (in each case, whether the same is consensual or nonconsensual or arises by Contract, operation of law, legal process or otherwise) any mortgage, lien, pledge, attachment, levy, charge, or other security interest or encumbrance of any kind in respect of any property of such Person, or upon the income or profits therefrom. For this purpose, the Borrower shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capitalized lease or other title retention agreement relating to such asset.

"Loan" means the advance under the Term Loan.

"Loan Documents" means this Agreement, the Term Note, the Guaranty, the financing statements and all other instruments, documents or agreements relating to the Obligations, both now or hereafter delivered by or upon request of the Borrower to the Bank.

"Mandatorily Redeemable Obligation" means, as applied to a Person, an obligation of such Person to the extent that it is redeemable, payable or required to be purchased or otherwise retired or extinguished (a) at a fixed or determinable date, whether by operation of a sinking fund or otherwise, (b) at the option of any Person other than such Person or (c) upon the occurrence of a condition not solely within the control of such Person, such as a redemption required to be made out of future earnings.

"Materially Adverse Effect" means (a) with respect to any Person, a materially adverse effect upon such Person's business, assets, liabilities, financial condition, results of operations or business prospects and (b) with respect to this Agreement, any Contract or any other obligation, a materially adverse effect, as to any party thereto, upon the binding nature, validity or enforceability thereof.

"Multiemployer Plan" means a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Note" means the Term Note.

"Obligations" of the Borrower at any time to the Bank means all of the Borrower's liabilities, obligations and indebtedness at such time to the Bank of any kind whatsoever, howsoever evidenced and whether contingent or otherwise, including, without limitation, all of Borrower's liabilities, obligations and indebtedness to the Bank under this Agreement, the Notes and the other Loan Documents.

"Patents" means patents, patent applications, patent rights or licenses, trademarks, trademark rights, trade names, trade name rights, copyrights, and any other right with respect to the foregoing.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permitted Liens" means the following Liens:

(i) a Lien securing a tax, assessment or other governmental charge or levy owed by the Borrower (excluding any Lien arising under any of the provisions of the Code or ERISA) or the claim of a materialman, mechanic, artisan, carrier, warehouseman or landlord for labor, materials, supplies or rentals incurred in the ordinary course of business, but only if payment thereof shall not at the time be required to be made in accordance with Section 4.01(e);

(ii) a Lien consisting of a deposit or pledge made by the Borrower in the ordinary course of business in connection with, or to secure payment of, obligations under worker's compensation, unemployment insurance or similar legislation;

(iii) a Lien arising by virtue of any easement, lease, reservation or other right of others in any property of the Borrower for streets, roads, bridges, pipes, pipelines, railroads, electric transmission and distribution lines, telegraph, telephone and other communication lines, the removal of oil, gas, coal or other minerals and other similar purposes, flood rights, river control and development rights, sewage and drainage rights, restrictions against pollution and zoning laws and minor defects and irregularities in the record evidence of title, provided that such easements, leases, reservations, rights, restrictions, laws,

defects and irregularities do not materially adversely affect the marketability of title to such property and do not in the aggregate materially impair the use or value of such property for the purposes for which it is held by the Borrower;

(iv) a Lien existing on any asset of the Borrower, other than the Collateral, the acquisition of which are financed or refinanced by loans, prior to the acquisition thereof by the Borrower but only if such Lien was not created in contemplation thereof and such Lien is and will remain confined to the property subject to it at the time such property is acquired and to improvements thereafter erected on or attached to such property;

(v) a Lien constituting a renewal, extension or replacement of a Lien constituting a Permitted Lien by virtue of clause (iv), but only, in the case of each such renewal, extension or replacement Lien, to the extent that the principal amount of indebtedness secured by such Lien does not exceed the principal amount of such indebtedness so secured at the time of the extension, renewal or replacement, and that such renewal, extension or replacement Lien is limited to all or a part of the property that secured the Lien extended, renewed or replaced and to improvements then or thereafter erected on or attached to such property;

(vi) a Lien arising pursuant to any judgment or to an order of attachment, restraint or similar legal process arising in connection with legal proceedings, but only if and so long as the execution or other enforcement thereof is not unstayed for more than thirty (30) consecutive days;

(vii) a Lien constituting rights of a licensor of Patents or of a licensee thereof in the ordinary course of business;

(viii) other Liens securing obligations incurred in connection with the acquisition of assets other than the Collateral and not in excess of \$25,000 in principal amount at any one time outstanding in the aggregate, provided that such Liens attach only to such assets;

(ix) a Lien securing Debt neither created, assumed nor guaranteed by the Borrower nor on amount of which it customarily pays interest, at the time of acquisition by the Borrower, upon lands over which easements or rights-of-way are acquired by the Borrower for any of the purposes specified in clause (iii) of this definition, which Liens do not materially impair the use of such easements or rights-of-way for the purposes for which they are held by the Borrower;

(x) any Lien or privilege vested in any lessor, licensor or permittor for rent to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under



leases, subleases, licenses or permits, so long as the payment of such rent or the performance of such other obligations or acts is not delinquent or, if delinquent, is being contested in good faith by appropriate and diligent legal proceedings which operate to prevent the collection of such rent or enforcement of the performance of such other obligations;

(xi) any Lien or privilege of any employee of the Borrower for salary or wages earned but not yet payable;

(xii) any Lien arising by virtue of the burdens of any law or governmental regulation or permit requiring the Borrower to maintain certain facilities or perform certain acts as a condition of its occupancy or of interference with any public lands or any river or stream or navigable waters;

(xiii) any Lien constituting a right reserved to, or vested in, any municipality or governmental or other public authority to control or regulate any property of the Borrower, or to use such property in any manner, which right does not materially impair the use of such property for the purposes for which it is held by the Borrower;

(xiv) any Lien for the payment or discharge of which provisions satisfactory to the Bank have been made;

(xv) any Lien constituting an interest of a third party in property owned jointly or in common with the Borrower; and

(xvi) any Lien in favor of the Bank.

"Person" means an individual, corporation, partnership, trust or unincorporated organization, a government or any agency or political subdivision thereof and, for the purpose of the definition of "ERISA Affiliate", a trade or business.

"Plan" means any pension plan which is covered by Title IV of ERISA and in respect of which the Borrower or an ERISA Affiliate is an "employer" as defined in Section 3(5) of ERISA.

"Plan Termination Event" means (i) a Reportable Event, (ii) the termination of a Single Employer Plan or the treatment of a Single Employer Plan amendment as a termination of such Plan under Section 4041 of ERISA, or the filing of a notice of intent to terminate a Single Employer Plan, (iii) the institution of proceedings to terminate a Single Employer Plan by the PBGC under Section 4042 of ERISA, or (iv) the appointment of a trustee to administer any Single Employer Plan.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System and any successor regulation.

"Regulatory Change" means (a) the enactment after the Initial Funding Date of any new, or the enactment or other effectuation

of any change in any existing, Applicable Law, (b) the adoption after the date hereof of any new, or the adoption or other effectuation of any change in any existing, interpretation, directive or request (whether or not having the force of law), or (c) any change in the administration or enforcement of any Applicable Law.

"Reportable Event" means any of the events set forth in Section 4043(b) of ERISA or the regulations thereunder, except any such event as to which the provision for thirty (30) days' notice to the PBGC is waived under applicable regulations.

"Representation or Warranty" means (a) each representation and warranty made pursuant to the provision of this Agreement, and (b) each statement contained in any certificate, financial statement, legal opinion or other instrument or document delivered by or on behalf of the Borrower pursuant to or in connection with this Agreement (including, but not limited to any representation, warranty or statement made in or in connection with any amendment of this Agreement).

"Reserve Requirement" means, with respect to any Loan, the rate for which reserves (including any marginal, supplemental or emergency reserve) are required to be maintained under Regulation D by member banks of the Federal Reserve System in Baltimore, Maryland against new non-personal time deposits of \$100,000 or more. The Base Rate shall be adjusted automatically on and as of the effective date of any change in the applicable Reserve Requirement.

"Single Employer Plan" means any Plan which is not a Multiemployer Plan.

"Subordinated Debt" means any Debt of the Borrower which is subordinated in priority to the payment of the Obligations.

"Subsidiary" when used to determine the relationship of a Person to the Borrower, means any Person of which (a) securities having ordinary voting power to elect a majority of the board of directors (or other persons having similar functions), or (b) other ownership interests ordinarily constituting a majority voting interest, are at the time, directly or indirectly, owned or controlled by the Borrower, or by one or more other Subsidiaries, or by the Borrower and one or more Subsidiaries.

"Tax" means any federal, state or foreign tax, assessment or other governmental charge or levy upon a Person or upon its assets, revenues, income or profits.

"Term Loan" shall have the meaning set for in Section 1.01 hereof.

"Term Note" means the Term Note in the original principal amount of \$106,666 entered into as of the date of this Agreement, in substantially the form of Exhibit A.

(b) Other Definitional Provisions.

(i) Except as otherwise specified herein, all references herein (a) to any Person, other than the Borrower, shall be deemed to include such Person's successors and assigns, (b) to the Borrower shall be deemed to include the Borrower's successors, and (c) to any Applicable Law or Contract specifically defined or referred to herein shall be deemed references to such Applicable Law or Contract as the same may be amended or supplemented from time to time, or, in the case of any such Contract, as the terms thereof may be waived or modified, but only in the case of each such waiver or modification, to the extent permitted by, and effected in accordance with, the terms thereof.

(ii) The words "herein", "hereof" and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any provision of this Agreement, and "Section", "subsection", "Schedule" and respective references are to this Agreement unless otherwise specified.

(iii) Whenever the context so requires, the neuter gender includes the masculine and feminine, and the singular number includes the plural, and vice versa.

(iv) All terms defined in this Agreement shall have the defined meanings when used in the Term Note or, except as otherwise expressly stated therein, any certificate, opinion or other document delivered pursuant hereto.

Section 10.02. Accounting Matters. Unless otherwise specified herein, all accounting determinations hereunder and all computations utilized by the Borrower in complying with the covenants contained herein shall be made, all accounting terms used herein shall be interpreted and all financial statements requested to be delivered hereunder shall be prepared, in accordance with Generally Accepted Accounting Principles, except, in the case of such financial statements, for departures from Generally Accepted Accounting Principles that may from time to time be approved in writing by the independent certified public accountants who are at the time, in accordance with Section 4.03 reporting on the Borrower's financial statements.

Section 10.03. Representations and Warranties. All Representations and Warranties shall be made at and as of the date hereof and at and as of each the date of each advance under the Revolving Credit Loan, and in addition, in the case of any particular Representation and Warranty, at such other time or times as such Representation and Warranty is made or deemed made in accordance with the provisions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers, under seal, as of the day and year first written above.

ATTEST:

Witness:

Patrick H. Carson

OCTORARO RAILWAY, INC.

By:

Eric D. Gerst  
President

(SEAL)

THE FIRST NATIONAL BANK OF MARYLAND

Patrick H. Carson

By:

Michael F. Dockman  
Michael F. Dockman  
Assistant Vice President

(SEAL)

STATE OF MARYLAND )  
 ) SS:  
CITY OF BALTIMORE )

On this 20 day of December, 1990, before me personally appeared Eric D. Gerst, to me personally known, who being by me duly sworn, says that he is the President of Octoraro Railway, Inc., a Pennsylvania corporation, that the seal affixed to the foregoing instrument is the corporate seal of said corporation, that said instrument was signed and sealed on behalf of said corporation by authority of its Board of Directors, and he acknowledges that the execution of the foregoing instrument was the free act and deed of said corporation.

Barbara A. Hemler  
Notary Public

(Notarial Seal)

My Commission Expires:

2/1/93

STATE OF MARYLAND )  
 ) SS:  
CITY OF BALTIMORE )

On this 20 day of December, 1990, before me personally appeared Michael F. Dockman, to me personally known, who being by me duly sworn, says that he is the Assistant Vice President of The First National Bank of Maryland, a national banking association, that the seal affixed to the foregoing instrument is the seal of said association, that said instrument was signed and sealed on behalf of said association by authority of its Board of Directors, and he acknowledges that the execution of the foregoing instrument was the free act and deed of said association.

Barbara A. Hemler  
Notary Public

(Notarial Seal)

My Commission Expires:

2/1/93

SCHEDULE 2.01(a)  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

OCTORARO RAILWAY, INC.  
CERTIFICATE AS TO RESOLUTIONS, ETC.  
AND CONSENT OF SHAREHOLDERS

I, \_\_\_\_\_, Secretary of Octoraro Railway, Inc., a Pennsylvania corporation, (the "Borrower"), DO HEREBY CERTIFY, pursuant to Section 2.01(a) of the Term Loan and Security Agreement dated as of December \_\_, 1990, between the Borrower and The First National Bank of Maryland (the "Bank"), that:

1. The persons named below have been duly elected (or appointed) and have duly qualified as, and on this day are, officers of the Borrower holding the offices set opposite their names, and the signatures below set opposite their names are their genuine signatures:

<u>Name</u>	<u>Office</u>	<u>Signature</u>
Eric D. Gerst	President	_____
_____	Vice President	_____
_____	Secretary	_____
_____	Treasurer	_____

2. Attached hereto as Annex A is a true and complete copy of resolutions duly adopted by the Board of Directors of the Borrower on December \_\_, 1990. Such resolutions have not been amended, modified or revoked and are in full force and effect on the date hereof.

3. The Term Loan and Security Agreement, the Term Note (as defined in the Term Loan and Security Agreement) and each other "Loan Document" (as defined in the Term Loan and Security Agreement), in each case, where applicable, as executed and delivered on behalf of the Borrower, are in the forms thereof approved by the Board of Directors of the Borrower.

4. There has been no amendment to the Articles of Incorporation of the Borrower.

5. Attached hereto as Annex B is a true and complete copy of the By-Laws of the Borrower as in effect on the date of this Certificate.

IN WITNESS WHEREOF, I have signed this Certificate this \_\_\_\_  
day of December, 1990.

\_\_\_\_\_  
Secretary

I, Eric D. Gerst, President of the Borrower, DO HEREBY  
CERTIFY that \_\_\_\_\_, Secretary, has been duly  
elected or appointed and has duly qualified as, and on this day  
is, Secretary of the Borrower, and the signature in paragraph 1  
above is his genuine signature.

IN WITNESS WHEREOF, I have signed this Certificate this \_\_\_\_  
day of December, 1990.

\_\_\_\_\_  
President

Annex A

Board Resolutions

Attached as part of closing transcript.



Annex B

By-Laws

Attached as part of closing transcript.

Schedule 1

Description of Locomotives

Two (2) EMD GP 7 1500 HP diesel locomotives, 567 BC Engine with Dash Elective System MU 26L Brakes, bearing the following road numbers:

341 (EX-ATSF 2202)

346 (EX-ATSF 2150)

SCHEDULE 2.01(f)  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

OPINION OF BORROWER'S COUNSEL

Octoraro Railway, Inc. ("Borrower") is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, has full power and authority to own its property and carry on its business as currently conducted and is duly qualified or licensed to do business and in good standing in each other jurisdiction where the nature of its business or its properties require such qualification.

The Borrower is conducting its business in such a manner as to comply with all applicable laws and regulations of the United States of America, the several states and the District of Columbia and any subdivision of any thereof wherein Borrower is doing business and of all governmental agencies and authorities of any thereof having jurisdiction in the premises.

The Borrower has the full power and authority to execute, deliver and perform its obligations under the Loan Documents.

The Loan Documents have each been duly authorized, executed and delivered by the Borrower, do not require the consent or approval of the stockholders or any trustee or holder of any indebtedness of the Borrower (except that which has been duly obtained) and constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

No consent, authorization, approval or other action by, and no notice to or filing or registration with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of the Loan Documents except for the filing of the Term Loan and Security Agreement with the Interstate Commerce Commission ("ICC") pursuant to 49 U.S.C. §11303, and the filing of Uniform Commercial Code financing statements with the Secretary of Commonwealth of Pennsylvania and the Promonotary of Chester County, Pennsylvania.

Neither the execution, delivery or performance by the Borrower of the Loan Documents nor compliance by it with the terms and provisions thereof, conflicts or will conflict with or will result in a breach or violation of any of the terms, conditions or provisions of any law, governmental rule or regulation or the Articles of Incorporation or By-Laws of the Borrower, or any order, writ, injunction or decree of any court or governmental authority against the Borrower or by which it or any of its properties is bound, or of any indenture, mortgage or

contract or other agreement or instrument to which the Borrower is a party or by which it or any of its properties is bound, or constitutes or will constitute a default thereunder or will result in the imposition of any lien not permitted by the Loan Documents upon any of its properties.

Upon the filing of the Term Loan and Security Agreement with the ICC and of the Uniform Commercial Code financing statements with the Secretary of Commonwealth of Pennsylvania and Prothonotary of Chester County, Pennsylvania, the Bank will have a valid, continuing duly perfected, first priority security interest in the Collateral and all proceeds thereof. No refilings or rerecordings are necessary in order to maintain the perfection of the Bank's security interest in the Collateral or the proceeds thereof.

Very truly yours,

SCHEDULE 2.01(p)  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

OPINION OF GUARANTOR'S COUNSEL

The Guarantor has the full power and authority to own or hold under lease his properties and to enter into and perform his obligations under the Guaranty; and the execution, delivery and performance of the Guaranty: (1) do not require any approval or consent of any trustee or holders of any indebtedness or obligations of the Guarantor except such as have been duly obtained; and (2) do not and will not contravene any law, governmental rule, regulation or order now binding on the Guarantor, or contravene the provisions of, or constitute a default under, or result in the creation of any lien or encumbrance upon the property of the Gurantor under, any indenture, mortgage, contract or other agreement to which the Guarantor is a party or by which he or his property is bound or may be affected.

Neither the execution and delivery by the Guarantor of this Guaranty, nor the performance by the Gurantor of his obligations thereunder, requires the consent or approval of, the giving of notice to, the registration with, or the taking of any other action in respect of, any Federal, state, local or foreign governmental authority or agency.

The Guaranty constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with the terms thereof, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by equitable principles to the extent equitable remedies are sought.

To the best of our knowledge after due investigation and inquiry, there are no pending or threatened actions or proceedings to which the Guarantor is a party, and there are no other pending or threatened actions or proceedings of which the Guarantor has knowledge, before any court, arbitrator or administrative agency which might materially adversely affect the financial condition of the Guarantor, or the ability of the Guarantor to perform his obligations under the Guaranty.

Sincerely yours,

SCHEDULE 3.02  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

REQUIRED CONSENTS AND GOVERNMENTAL APPROVALS

The following is a complete and correct list of (a) all consents or approvals of the stockholders of the Borrower and (b) Governmental Approvals required for the execution, delivery and performance of the Term Loan and Security Agreement, the Term Note and the other Loan Documents in accordance with their respective terms and under the Term Loan and Security Agreement:

None.

There are attached true and correct copies (certified in the case of Government Approvals) of each such consent or approval.

SCHEDULE 3.03  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

LITIGATION

None.

SCHEDULE 4.16  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

INDEBTEDNESS

None.



SCHEDULE 5.01  
to  
Term Loan  
and Security Agreement  
dated as of December \_\_, 1990

OCTORARO RAILWAY, INC.  
CERTIFICATE AS TO  
FINANCIAL STATEMENTS

I, \_\_\_\_\_, [President] [Chief Financial Officer] of Octoraro Railway, Inc. (the "Borrower"), hereby certify pursuant to Section 5.01 of the Term Loan and Security Agreement dated as of December \_\_, 1990 between the Borrower and The First National Bank of Maryland (the "Bank") that:

The accompanying unaudited financial statements of the Borrower as at \_\_\_\_\_ and for the \_\_\_\_\_ months ending \_\_\_\_\_, 19\_\_, are complete and correct and present fairly, in accordance with Generally Accepted Accounting Principles (except for changes described below) and the financial position of the Borrower as at the end of such period, and the results of operations and the changes in the financial position for such period, and for the elapsed portion of the fiscal year ended with the last day of such period, in each case on the basis presented and subject only to normal year-end auditing adjustments.

The changes from Generally Accepted Accounting Principles are as follows:

Dated: \_\_\_\_\_, 19\_\_.

\_\_\_\_\_  
[President]  
[Chief Financial Officer]

SCHEDULE 5.04  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

OCTORARO RAILWAY, INC.  
CERTIFICATE AS TO COMPLIANCE WITH  
FINANCIAL COVENANTS, DEFAULTS

I, \_\_\_\_\_, [President] [Chief Financial Officer] of Octoraro Railway, Inc. (the "Borrower") hereby certify pursuant to Section 5.04 of the Term Loan and Security Agreement dated as of December \_\_, 1990 between the Borrower and The First National Bank of Maryland (the "Bank") that:

Based on an examination sufficient to enable me to make an informed statement, no Default exists, including, in particular, any Default arising under the provisions of Article 6 except the following:

[If none such exist, insert "None"; if any do exist, specify the same by Section, give the date the same occurred, whether it is continuing, and the steps being taken by the Borrower with respect thereto.]

Dated: \_\_\_\_\_, 199\_\_.

\_\_\_\_\_  
[President]  
[Chief Financial Officer]

EXHIBIT A  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

FORM OF TERM NOTE

\$106,666.00

Baltimore, Maryland  
December \_\_, 1990

FOR VALUE RECEIVED, OCTORARO RAILWAY, INC., a Pennsylvania corporation (the "Borrower"), hereby promises to pay to the order of THE FIRST NATIONAL BANK OF MARYLAND (together with its successors and assigns, the "Bank") the principal sum of ONE HUNDRED SIX THOUSAND SIX HUNDRED SIXTY-SIX and 00/100 DOLLARS (\$106,666.00), together with interest thereon from the date hereof until paid in full, as provided below.

Principal and interest shall be payable as follows:

(a) Interest shall be payable on all sums advanced at an annual rate which is at all times equal to one and one-half percent (1.5%) per annum in excess of the floating and fluctuating prime rate of interest established and declared by the Bank from time to time (the "Prime Rate"; and collectively, the "Interest Rate") and after maturity or demand at a rate which is three and one-half percent (3.5%) in excess of the then applicable Interest Rate, until paid in full (in no event shall either such rate exceed the maximum rate allowed by law). Interest shall be computed on the basis of a 360-day, year for the actual number of days elapsed. The rate of interest charged hereunder shall be adjusted on any day on which there is a change in the Prime Rate.

(b) Forty-seven (47) consecutive monthly installments of principal; each in the amount of \$1,481.47; followed by a final installment of principal in the amount of \$37,036.91; together with interest at the Interest Rate on the principal balance outstanding from time to time; payable, in arrears, on the \_\_\_\_ day of each succeeding calendar month for each month during the term hereof, commencing January \_\_, 1990.

(c) The balance of any unpaid principal, together with all accrued but unpaid interest and all other sums then due under the Loan Documents (as defined in the Term Loan and Security Agreement) shall be due and payable in full on December \_\_, 1994.

All payments of principal and interest shall be payable in lawful money of the United States of America, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment.

The Borrower shall have the right to prepay the Term Note in whole on any principal installment payment date after giving the Bank thirty (30) days prior written notice of its intention to make such prepayment, by paying, in addition to such prepayment, all accrued but unpaid interest and all other sums due under the Term Note, together with a Prepayment Premium. The "Prepayment Premium" shall be computed by multiplying the following specified percentage times the outstanding principal balance due hereunder:

<u>Prepayment Date by Months</u>	<u>Percentage</u>
1-12	3%
13-24	2%
25-36	1%
37-48	0%

All payments received hereunder shall be applied first to the payment of interest, then to the payment of the premium, if any, and the balance, if any, to the payment of principal, unless otherwise agreed to by the Bank.

This Term Note is the Term Note referred to in the Term Loan and Security Agreement (the "Loan Agreement") and is secured by a grant of security made by the Borrower to the Bank pursuant to the Loan Agreement. Reference is hereby made to the Loan Agreement for description of the property assigned, the nature and extent of the security and the rights of the Bank in respect of such security.

The Borrower further agrees to pay prior to judgment, all costs of collection, including a reasonable attorney's fee, if this Term Note is referred to an attorney for collection following an Event of Default (as defined in the Loan Agreement).

This Term Note, having been executed by the Borrower and delivered to the Bank in the State of Maryland, is to be governed by, construed under and enforced in all respects according to, the laws of the State of Maryland. Venue for any action hereunder or related hereto shall be in any state or Federal court of competent jurisdiction in the State of Maryland, and the Borrower submits to the jurisdiction of such courts.

Payments of principal and interest shall be made by wire transfer or by check to the Bank at 25 South Charles Street, Baltimore, Maryland 21201 or in such other manner and/or at such other address as the holder hereof shall have designated to the Borrower in writing; and shall be effective upon receipt.

In the event of the declaration by the Bank of an Event of Default under the Loan Agreement, then this Term Note shall be in default and the balance of the principal sum then due hereunder, together with all accrued interest thereon and premium, if any, shall become immediately due and payable without further notice, such further notice being expressly waived, and the Borrower

shall be liable to the holder hereof for reasonable attorney's fees and costs of suit. Upon the occurrence of any default hereunder, the Borrower does hereby irrevocably authorize and empower any attorney of any court of record, either in the State of Maryland or the United States or elsewhere, to appear for the Borrower and, with or without declaration filed, to confess judgment or judgments against the Borrower in favor of the holder hereof for the balance then due hereunder with costs of suit and attorney's fees of fifteen percent (15%) of the amount then due hereunder for collection.

The rights and remedies of the holder of this Term Note, as provided herein, shall be cumulative and concurrent and may be pursued singularly, successively or together at the sole discretion of the holder, and may be exercised as often as occasion therefor shall occur, and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release of the same.

In the event that any one or more of the provisions (or any part of any provision) of this Term Note shall for any reason be held to be invalid, illegal or unenforceable in any respect, or in the event that any one or more of the provisions of this Term Note operates or would prospectively operate to invalidate this Term Note, then and in either of those events, such provision or provisions only shall be deemed null and void and shall not affect any other provisions (or remaining part of the affected provision) of this Term Note and the remaining provisions (or remaining part of the affected provision) of this Term Note shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

The Borrower hereby waives presentment, protest and demand, notice of protest, notice of demand and of dishonor and non-payment of this Term Note, and expressly agrees that this Term Note or any payment hereunder may be extended from time to time without in any way affecting the liability of the Borrower.

The Borrower hereby waives trial by jury in any action or proceeding to which the Borrower and the Bank may be parties arising out of or in any way pertaining to (a) this Term Note, (b) the Loan Agreement or (c) any other document executed in connection herewith or therewith. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Term Note. This waiver is knowingly, willingly and voluntarily made by the Borrower and the Borrower hereby acknowledges that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or in any way to modify or nullify its effect. The Borrower further acknowledges that it has been represented in the signing of this Term Note and in the making of this waiver by independent legal

counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel.

IN WITNESS WHEREOF, the Borrower has caused this Term Note to be duly executed, under seal, as of the day and year first above written.

ATTEST/WITNESS:

OCTORARO RAILWAY, INC.

By: \_\_\_\_\_ (SEAL)  
Eric D. Gerst  
President

EXHIBIT B  
to  
Term Loan and Security Agreement  
dated as of December \_\_, 1990

FORM OF GUARANTY

THIS GUARANTY is executed and delivered in favor of THE FIRST NATIONAL BANK OF MARYLAND, its successors and assigns ("the Bank") in connection with that certain Term Loan and Security Agreement dated as of December \_\_, 1990 (the "Agreement"), by and between the Bank and Octoraro Railway, Inc. ("Borrower"), pursuant to which the Borrower will borrow certain funds from the Bank, which indebtedness is to be evidenced by a term note (the "Term Note") in substantially the form attached thereto as Exhibit No. 1 (the Agreement and the Term Note heretofore or hereafter executed pursuant thereto being herein collectively referred to as the "Loan Agreement").

An express condition to the obligation of the Bank to make such loan to the Borrower pursuant to the Loan Agreement is the undertaking by the undersigned ("Guarantor") to guarantee the payment by the Borrower to the Bank of the indebtedness and the performance by the Borrower of its obligations, covenants and agreements under the Loan Agreement.

For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor hereby UNCONDITIONALLY AND IRREVOCABLY GUARANTEES:

- (a) the prompt payment when due of the principal of, premium, if any, and interest on the Term Note, whether by acceleration or otherwise;
- (b) the prompt performance by the Borrower of all of its covenants and agreements contained in the Loan Agreement and in all other instruments and documents executed by the Borrower in connection therewith;
- (c) the prompt payment when due of any and all sums of money for which the Borrower now is or may hereafter become indebted to the Bank pursuant to the Loan Agreement; and
- (d) the payment of all costs, expenses and legal fees incurred by the Bank in the enforcement of this Guaranty and each of the documents referred to herein.

The obligations of the Guarantor hereunder are direct, primary, absolute, continuing and immediate, not subject to any condition precedent, and shall constitute a guaranty of payment and performance and not of collection. The liabilities of the Guarantor hereunder are not contingent upon the Bank's exercise or enforcement of any right or remedy it may have against the

Borrower or any guaranty, security or pledge with respect to the obligations of the Borrower under the Loan Agreement. The Guarantor undertakes and agrees to perform all of the foregoing terms, covenants and conditions notwithstanding that the Loan Agreement shall be void or voidable as against the Borrower or any of the Borrower's creditors, including a trustee in bankruptcy of the Borrower, by reason of any fact or circumstance including, without limiting the generality of the foregoing, the failure by any person to file or record any document or to take any other action to make the Loan Agreement enforceable in accordance with the terms thereof.

This Guaranty is a continuing one.

In order to induce the Bank to enter into the Loan Agreement, the Guarantor makes the following representations and warranties, which shall survive the execution and delivery of this Guaranty:

(1) the execution, delivery and performance hereof by the Guarantor: (a) do not require the approval of any trustee or holder of any obligations of the Guarantor except such as have been duly obtained; and (b) do not and will not contravene any law, governmental rule, regulation or order now binding on the Guarantor, or contravene the provisions of, or constitute a default under, or result in the creation of any lien or encumbrance upon the property of the Guarantor under, any indenture, mortgage, contract or other agreement to which the Guarantor is a party or by which he or his property is bound or may be affected.

(2) the personal financial statements of the Guarantor (copies of which have been furnished to the Bank) accurately and completely present the Guarantor's personal financial condition as of the date of and for the period covered by such statements, and since the date of such statements there has been no material adverse change in such condition.

(3) this Guaranty constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with the terms hereof.

(4) there are no pending actions or proceedings to which the Guarantor is a party, and there are no other pending or threatened actions or proceedings of which the Guarantor has knowledge, before any court, arbitrator or administrative agency, which, either individually or in the aggregate, would materially adversely affect the personal financial condition of the Guarantor, or the ability of the Guarantor to perform his obligations under any obligation which, either individually or in the aggregate, would have the same such effect.

The Guarantor hereby covenants and agrees that he will provide to the Bank within ninety (90) days after the end of each calendar year, an updated personal financial statement and a copy of his Federal and state income tax returns for the prior year.



Guarantor authorizes the Bank, with the Borrower's consent where required, without notice or demand, and without affecting his liability hereunder, from time to time to: (a) change the amount, time or manner of payment of the sums required to be paid pursuant to the Loan Agreement; (b) change any of the terms, covenants, conditions or provisions of the Loan Agreement; (c) amend, modify, change or supplement the Loan Agreement; (d) assign the Loan Agreement or the sums payable under the Loan Agreement; (e) consent to the Borrower's assignment of the Loan Agreement; (f) receive and hold security for the payment of this Guaranty or the performance of the Loan Agreement, and exchange, enforce, waive and release any such security; and (g) apply such security and direct the order or manner of sale thereof as the Bank in its sole discretion may determine.

The Guarantor waives any right to require the Bank to: (a) proceed against the Borrower or any other party; (b) proceed against or exhaust any security held from the Borrower; (c) pursue any other remedy in the Bank's power whatsoever; or (d) notify the Guarantor of any default by the Borrower in the payment of any sums required to be paid pursuant to the Loan Agreement or in the performance of any term, covenant or condition therein required to be kept, observed or performed by the Borrower. The Guarantor shall remain liable for the Borrower's obligations under the Loan Agreement and for the obligations hereunder, notwithstanding any judgment the Bank may obtain against the Borrower or any other person or entity, or any modification, extension or renewal with respect thereto. The Guarantor waives any defense arising by reason of any disability or other defense of the Borrower, any lack of authority of the Borrower with respect to the Loan Agreement, the invalidity, illegality or lack of enforceability of the Loan Agreement from any cause whatsoever, the failure of the Bank to perfect or maintain perfection of any interest in any collateral, or the cessation from any cause whatsoever of the liability of the Borrower; provided, however, that the Guarantor does not waive any defense arising from the due performance by the Borrower of the terms and conditions of the Loan Agreement. The Guarantor waives all presentments, demands for performance, notices of nonperformance, protests, notices of dishonor, and notices of acceptance of this Guaranty. THE GUARANTOR HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHTS IT MAY HAVE AT ANY TIME (WHETHER ARISING DIRECTLY OR INDIRECTLY, BY OPERATION OF LAW OR CONTRACT) TO ASSERT ANY CLAIM AGAINST THE BORROWER ON ACCOUNT OF PAYMENTS MADE UNDER THIS GUARANTY, INCLUDING, WITHOUT LIMITATION, ANY AND ALL RIGHTS OF SUBROGATION, REIMBURSEMENT, EXONERATION, CONTRIBUTION OR INDEMNITY. This Guaranty and the Guarantor's obligations hereunder shall continue to be effective or to be reinstated, as the case may be, if at any time payment of any sums due hereunder is rescinded, avoided, reduced in amount or must be restored or returned by the Bank, whether as a "voidable preference," "fraudulent conveyance" or otherwise, as though such payment had not been made. The Bank's good faith determination

as to whether a payment must be restored or returned shall be binding on the Guarantor.

The Guarantor acknowledges that he has been provided with or has had an opportunity to review the Loan Agreement and that he undertakes and agrees to assume all of the obligations encompassed in the Loan Agreement.

The Bank shall not be under any obligation or liability to marshal any assets in favor of the Guarantor or in payment of any or all of the Borrower's obligations under the Loan Agreement.

The Guarantor shall be deemed to be in default hereunder ("Default") if: (a) the Guarantor shall fail to perform or observe any covenant, condition or agreement to be performed or observed by him hereunder and such failure shall continue unremedied for a period of ten (10) days after written notice thereof to the Guarantor by the Bank; or (b) the Guarantor shall (1) be generally not paying its debts as they become due, (2) take action for the purpose of invoking the protection of any bankruptcy or insolvency law, or any such law is invoked against or with respect to the Guarantor or his property, and such petition filed against the Guarantor is not dismissed within thirty (30) days; or (c) there is an anticipatory repudiation of the Guarantor's obligations pursuant to this Guaranty; or (d) any certificate, statement, representation, warranty or audit contained herein or heretofore or hereafter furnished with respect to this Guaranty by or on behalf of the Guarantor proving to have been false at the time as of which the facts therein set forth were stated or certified, or having omitted any contingent or unliquidated liability or claim against the Guarantor.

Upon a Default hereunder, the Bank may, at its option, declare this Guaranty to be in default (without election of remedies), and at any time thereafter, may do any one or more of the following, all of which are hereby authorized by the Guarantor:

A. declare the Loan Agreement to be in default and thereafter sue for and recover all damages, accelerated payments and/or other sums otherwise recoverable from the Borrower thereunder; and/or

B. sue for and recover all damages then or thereafter incurred by the Bank as a result of such Default; and/or

C. seek specific performance of the Guarantor's obligations hereunder.

No right or remedy referred to herein is intended to be exclusive, but each shall be cumulative, and shall be in addition to any other remedy referred to above or otherwise available at law or in equity, and may be exercised concurrently or separately from time to time. The Guarantor agrees to pay reasonable

attorneys' fees and all other costs and expenses which may be incurred by the Bank in the enforcement of this Guaranty.

The Guarantor does hereby irrevocably authorize and empower any attorney of any court of record, to appear for the Guarantor before any court having jurisdiction and after one or more declarations filed confess judgment or judgments against the Guarantor for the unpaid balance of all sums due under the Agreement or hereunder, together with interest, court costs and attorneys' fees of fifteen percent (15%) of the amount due.

The obligations of the undersigned hereunder are independent of the obligations of the Borrower. A separate action or actions may be brought and prosecuted against the Guarantor whether an action is brought against the Borrower or whether the Borrower be joined in any such action or actions; and the Guarantor waives the benefit of any statute of limitations affecting his liability hereunder or the enforcement thereof.

No waiver by the Bank of any right or remedy shall be effective unless in writing nor, in any event, shall the same operate as a waiver of any other or future right or remedy that may accrue to the Bank. If any part of this Guaranty shall be adjudged invalid, then such partial invalidity shall not cause the remainder of this Guaranty to be or to become invalid, and if a provision hereof is held invalid in one or more of its applications, said provision shall remain in effect in valid applications that are severable from the invalid application or applications.

The Guarantor agrees that this Guaranty and the rights and obligations of the Bank and the Guarantor hereunder shall in all respects be governed by, and construed in accordance with the laws of the State of Maryland. The Guarantor agrees that any action or proceeding arising out of or relating to this Guaranty may be commenced in any court in the State of Maryland or in the United States District Court for the District of Maryland, and agrees that a summons and complaint commencing an action or proceeding in any such court shall be properly served and shall confer personal jurisdiction if served personally or by certified mail to it at its address hereinafter set forth, or as it may provide in writing from time to time, or as otherwise provided under the laws of the State of Maryland. The Guarantor hereby waives trial by jury in any action or proceeding to which he and the Bank may be parties, arising out of or in any way pertaining to the Agreement or this Guaranty. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Guaranty. This waiver is knowingly, willingly and voluntarily made by the Guarantor, and the Guarantor hereby represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. Guarantor further represents

that he has been represented in the signing of this Guaranty and in the making of this waiver by independent legal counsel, selected of his own free will, and that he has had the opportunity to discuss this waiver with counsel.

This Guaranty and the liability and obligations of the Guarantor hereunder are binding upon the Guarantor, his heirs and personal representatives and inure to the benefit of and are enforceable by the Bank, its successors and assigns.

Notwithstanding the foregoing, at such time as the principal balance outstanding under the Term Note falls below \$66,666 and so long as the Borrower is not then in default, the Guarantor shall automatically be released from his obligations hereunder and this Guaranty shall as of that time be of no further force or effect (subject only to the provisions of the second full paragraph on page 3 hereof).

IN WITNESS WHEREOF, Guarantor has executed this Guaranty, under seal, as of the \_\_\_\_ day of December, 1990.

WITNESS:

\_\_\_\_\_  
Eric D. Gerst (SEAL)  
\_\_\_\_\_  
\_\_\_\_\_